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The Manufacturers Hanover Financial Digest

Economic Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 10, 1986 VOLUME XXIII, NUMBER 24

It's The Little Things In Life . . .

Every month after the government releases the Consumer Price Index, newspapers and television newscasts carry stories discussing the reining in of inflation. This notion is reinforced by the pronouncements of most economists in their speeches and newsletters. If this is true, one might wonder while reading yet another article on the victory over inflation, why does it seem as if one is always paying more for one small item after another?

In this era of moderate inflation, one still finds many price increases and each is a nuisance. According to the CPI, prices have risen a total of five percent in the past two years. Most people would question whether their spending has gone up only five percent since 1984. While sipping our morning cup of coffee which used to cost $1.79/lb. back then and now sells for $3.19/lb., the editors of the Financial Digest decided recently to compare our expenditures during the course of an average week, with purchases made two years ago.

Before hopping on the train, we bought a weekly news magazine and were confronted with the first nuisance increase of the day: an 11 percent price rise over 1984. And a pack of chewing gum is up over 33 percent. Worse still, because of the time we spent calculating these price increases, we missed our train. To avoid being late for work, we opted for a cab instead of the subway for our ride downtown. Another shock awaited us: the price of a 40-block cab ride had risen 45 percent. We hopped out of the cab. Walking, at least for now, is still free. By the time we reached our office, the 40-block trek had made us thirsty. A cold can of soda seemed the answer, but another nuisance increase popped up. The price of a can of soda went up 15.4 percent, from 65 cents to 75 cents.

. . . That Make Inflation . . .

Lunch time arrived, and we were hungrier than usual after our morning of walking and figuring out price changes. We walked over to a fast food restaurant and ordered a large hamburger and milk shake. The price of our meal had risen almost 10 percent. Perhaps we should have gotten a slice of pizza and a beer. But pizza prices have risen 32 percent and the cost of a bottle of imported beer is up over 15 percent—which is enough to make anyone want a drink. With lunch over, we walked back toward our office, and suddenly our feet felt as if they were scraping on concrete. All our walking had worn down our shoes. The last time we had shoes resoled was two years ago, and it cost $25. This year's price is $27, an eight percent increase.

Later, with the workday finished, we decided to treat ourselves to some evening entertainment. But

PRICE INCREASES OF SELECTED SMALL-TICKET CONSUMER GOODS*

Item	Sep. 1984	Sep. 1986	Percent Change
Ground coffee (1 lb.)	$ 1.79	$ 3.19	78.2%
Liquid detergent (22 oz.)	1.29	1.89	46.5
Toothpaste (5 oz.)	.99	1.39	40.4
Taxi (2-mile ride)	3.10	4.25	37.1
Orange juice (½ gallon)	1.69	2.29	35.5
Pack of gum	.45	.60	33.3
Pizza slice	.95	1.25	31.6
Bananas (1 lb.)	.39	.49	25.6
Ground round beef (1 lb.)	1.99	2.49	25.1
Woman's haircut	20.00	25.00	25.0
Pint of ice cream	1.09	1.35	23.9
Movie	5.00	6.00	20.0
Shoe shine	1.25	1.50	20.0
Peanut butter (18 oz. jar)	1.79	2.09	16.8
Paperback book	3.75	4.35	16.0
Bottle of imported beer	1.30	1.50	15.4
Dry cleaning of a suit	6.00	6.75	12.5
News magazine	1.75	1.95	11.4
Fast food 4-oz. hamburger and milk shake	2.63	2.88	9.5
Full sole and rubber heels	25.00	27.00	8.0
Weighted average increase**	–	–	23.9%

*Prices are at New York City retail levels and are used as examples only.

**Includes items not listed in table.

Source: MH survey

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the cost of a drink in a hotel lounge has gone up by 10 percent (without tip), and a ticket to a movie now costs $6 instead of $5, a 20 percent increase. We chose instead to buy a best-selling paperback book and spend the night reading. However, in doing so, we found that the cost of an evening of popular literature had increased 16 percent.

Before heading home, we stopped off at the grocery store to pick up such essentials as toothpaste, bananas, ice cream and orange juice. In 1984, the bill would have been $4.16, but the cash register today shows $5.52, a 33 percent increase. More bad news awaited us when we checked our mailbox at home. Our monthly telephone bill went up a whopping 45 percent, in large part because of the breakup of the phone company.

. . . A Nuisance

Totaling all these price increases, we discovered that the government's measure of inflation and our own tally were widely divergent. Could the government be spreading disinformation about inflation? How could the CPI be up only five percent, while spending for our daily needs has risen by more than four times that amount in two years?

Part of the reason lies in the way the CPI is compiled. Large weights in the monthly index are given to prices of such big-ticket items as household

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/5/86	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	197.724	+ 1.687	+18.886
Loans to Depository Inst.	1.082	+ .367	– .043
Float	.542	+ .230	+ .173
Total Reserve Bank Credit	216.176	+ 2.354	+21.067
Treasury Deposits with Federal Reserve Banks	2.919	– .413	– .188
Currency in Circulation	202.799	+ .850	+13.013
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	164.174	– 1.912	+37.878
	11/5/86		
Member Bank Reserves:			
Total Reserves Held	52.473	– .142	+ 8.399
Excess (Deficiency)	.908	+ .154	+ .106
Net Free Reserves	.467	– .038	+ .160
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (10/27/86)	704.2	+ 15.1‡	+ 14.2‡
M2 (September '86)	2,740.7	+ 10.5	+ 8.3
M3 (September '86)	3,424.8	+ 10.3	+ 8.7
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/7/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.31%	5.42%	5.51%
* Federal Agencies	5.52	5.55	5.60
* Municipal Notes—High Grade (46% Taxable Equivalent)	5.74	6.67	7.59
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.80	5.80	5.95

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.80%	Dec.	5.75%
15- 29 days	5.80	Jan.	5.72
30- 59 days	5.80	Feb.	5.68
60- 89 days	5.78	Mar.	5.67
90-179 days	5.60	Apr.	5.66
180-239 days	5.50	May	5.62
240-270 days	5.50		

‡ Industrial Paper—Prime			
30- 89 days	5.79%	† Federal Funds	
90-120 days	5.75	Effective Rate	5.95%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,234	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,683	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.4	0.6	4.1
Change in Consumer Prices*	Sep '86	3.6%	2.4%	2.4%
Change in Producer Prices*	Sep '86	4.8%	3.6%	– 7.2%
Civilian Employment (Thousands of Persons) †	Oct '86n	110,240	109,891	107,813
Unemployment as % of Civilian Labor Force †	Oct '86n	7.0%	7.0%	7.1%
Personal Income*	Sep '86	$ 3,512	$ 3,500	$ 3,334
Leading Indicators Composite Index (1967=100) †	Sep '86n	180.1	179.3r	170.6
Industrial Production Index (1977=100) †	Sep '86	125.3	125.1	124.3
Net Change in Consumer Installment Credit †	Sep '86n	$ 8.37	$ 3.39r	$ 10.33
U.S. Merchandise Trade Balance	Sep '86n	–$ 12.56	–$ 14.03r	–$ 11.68
Plant and Equipment Expenditures*	4th Q'86	$383.99(a)	$380.52(a)	$397.88
Private Housing Starts (Thousands of Units)*	Sep '86	1,680	1,818	1,653
New Construction Expenditures*	Sep '86n	$ 385.7	$ 380.4r	$ 361.3
Total Business Inventories †	Aug '86	$ 591.9	$ 591.9	$ 579.5
Total Business Sales †	Aug '86	$ 429.1	$ 427.5	$ 428.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

furnishings and cars, although we know of no one who buys these items every month. Additionally, the recent plunge in prices of energy products, which make up 12 percent of the CPI, has dramatically slowed the rise of the entire index.

The other part of the explanation lies in the fact that many items and services have, indeed, risen much faster than the increases in the overall CPI. Using weights provided by the Bureau of Labor Statistics, it is possible to construct an inflation rate for these small-ticket items. For a selection of 36 items commonly purchased in a day or week, prices appear to have jumped by a startling 24 percent over the last two years (see table on page 1)! However, these items account for about 15 to 20 percent of people's total yearly spending, so they carry only a small weight in the CPI, even though the average consumer buys these products frequently.

Certainly, none of these price increases will ruin anyone's budget, but each of them is a nuisance. So even though the government's data indicates that consumer price inflation is moderate, we now accept such information with a fair amount of skepticism. For many consumers, the CPI is not the final word on the rate of inflation. In reality, price increases on basic essentials shape our perception of how fast prices are rising. And there does not seem to have been much of a slowdown here in recent years. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/22/86)	152,750	– 291	– 4,996
New York City (10/29/86)	33,495	– 252	– 269
Commercial Paper (10/29/86)	335,410	– 890	+49,368

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/22/86)	259,012	– 146	+ 5,037
New York City (10/29/86)	58,199	– 499	– 1,466

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/22/86)	749,205	– 1,406	+ 57,033
New York City (10/29/86)	161,770	– 1,765	+ 9,526

Financial Markets

	Friday 11/7/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.44%	+ .13	– 2.02
180-Day Bills†	5.63	+ .16	– 2.01
Longest Bills†	5.81	+ .11	– 1.99
Recent Issues:			
$6\frac{3}{8}$s 10/31/88	6.31	+ .10	
$6\frac{3}{4}$s 9/30/90	6.78	+ .11	
$7\frac{1}{4}$s 11/15/96 (When Issued)	7.38	NA	
$7\frac{1}{2}$s 11/15/16 (When Issued)	7.61	NA	
Municipals:			
Bond Buyer–20 Bond Index* (11/6/86)	6.94%	0.0	– 1.74
Blue List Total ($ Million)	$1,676	+ $166	+ $ 98
30-Day Visible Supply ($ Million)	$2,228	– $285	– $5,870
Total	$3,904	– $119	– $5,772
Corporates:			
Moody's Aa Composite (11/6/86)	9.29%	+ .03	– 1.89
30-Day Visible Supply ($ Million)	$4,112	+ $215	+ $2,244
Stocks:			
Dow-Jones Averages:			
Industrials	1,886.53	+ 8.72	+ 482.17
Transportation	845.00	+ 9.62	+ 166.86
Utilities	209.81	+ .40	+ 47.88
65 Stocks	746.65	+ 4.58	+ 177.21
N.Y.S.E. Composite Index	141.50	– 4.25	+ 29.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	158,552	+ 1,568	+ 40,948

* 46% Taxable equivalent 12.85%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/7/86	Week Ago
Overnight	5.88%	5.78%
1 month	5.94	5.81
3 month	5.94	5.81
6 month	5.94	5.81
1 year	6.06	5.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.24%	7.34%
Long Term (7 to 15 yrs.)	8.15	8.26

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/7/86)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02335	42.820
Canada	.7205	1.3879
Denmark	.1288	7.7650
France	.1485	6.7325
Germany	.4845	2.0640
Italy	.0007015	1425.50
Japan	.006124	163.30
Mexico	.001220	819.50
Netherlands	.4287	2.3327
Switzerland	.5811	1.7210
U.K.	1.4260	.7013

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The Manufacturers Hanover Financial Digest

Economic Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 24, 1986

VOLUME XXIII, NUMBER 25

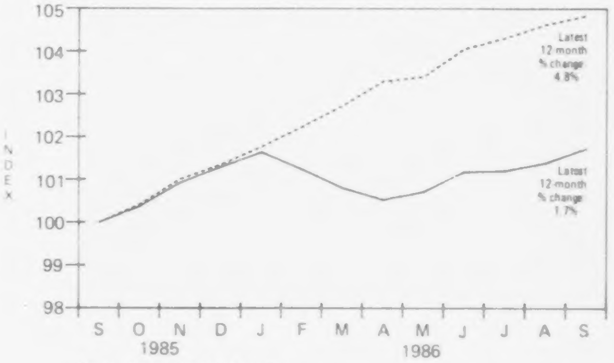
For The Time Being . . .

As the year draws to a close, one question overhanging the credit markets—other than the size of holiday bonuses and the future of high-yield corporate bonds—is how far into the new year will it be before the Federal Reserve eases monetary policy again. From this vantage point, the answer appears to be not too far. For although some signs point toward a pre-tax reform speed-up in business activity, and some of the best inflation rate news may be behind us, any market fears that monetary policy will be tightened are clearly premature. With highly visible soft spots dotted throughout the domestic and global economies, the Fed will continue to do all it can to keep today's business expansion on track—and that means maintaining an accommodative policy posture, and turning toward even more ease if economic growth falters in the new year.

Which raises the question as to whether or not growth will falter. In this regard, last week's upward revision to third-quarter, real gross national product growth offers few clues, since the GNP numbers are, by their very nature, backward-looking statistics. What is more, the onset of tax reform, in just over a month, is complicating the interpretation of the economic numbers. This is because both businesses and consumers have substantial incentives to spend sooner, rather than later—businesses to complete construction and accelerate capital equipment purchases before yearend to take advantage of today's more generous depreciation schedules, while consumers, by purchasing big-ticket items now, can take last-minute advantage of the deductibility of sales taxes. These incentives could do two things: They may at least partially explain the vigorous upturn in factory orders and construction spending toward the end of last quarter, and they could boost this quarter's growth at the expense of future quarters.

Nor does one have to look far to find pockets of persistent economic weakness. Industrial production remains soft, capacity utilization rates are still dropping and the trade balance deficit, although it may have stabilized, continues to hobble a sizable chunk of the manufacturing sector. Even the stimulus of consumer spending, one of the key factors behind the business expansion, may fade somewhat next year, given the sizable level of existing household debt, modest savings rates and the likelihood of more moderate employment growth. Add to this the fact that large chunks of idle capacity will continue to deter capital spending, and that commercial construction will be inhibited by lofty vacancy rates and the loss of tax benefits, and it appears to be a good bet that the economy might well hit an "air pocket" sometime in early 1987.

CONSUMER PRICE INDEX TOTAL (LINE) VS. SERVICES (DOT)
<SEPTEMBER 1985=100>



Source Bureau of Labor Statistics

. . . Monetary Policy . . .

But "air pocket" or not, the Fed apparently decided to put further monetary policy easing initiatives on hold at its November 5, policy-setting Federal Open Market Committee meeting. While some may question the approach of reacting to signs of future economic weakness, rather than trying to head them off in advance, behind this decision stands a combination of money supply, inflation rate and foreign exchange market considerations.

Take, for example, the money supply. Recent trends may be raising more than the usual number of yellow caution flags. Although the growth of the M1 money supply has been exceptionally rapid—and disregarded—all year long, the disturbing feature about recent developments is that the

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growth of the broader money supply numbers has accelerated as well. The year-to-date growth of the M2 money supply is now also above target, and the Fed's policymakers may feel that additional ease at this time would only compound the problem—and possibly damage the Fed's inflation-fighting credibility.

So, too, recent price trends may be raising considerable doubts as to whether or not inflation is as dormant as everyone seems to think it is. The Commodity Research Bureau's spot price index of raw industrial commodities, often a forerunner of broader inflation performance, has advanced by nearly 15 percent during the last 13 weeks, a sharp about-face when compared with the 3.4 percent drop in the index posted during the immediately preceding 13-week period. What is more, although consumer prices have risen by only 1.7 percent during the past year, the dramatic break in energy and food prices has tended to mask the ongoing rise of services prices—whose rate of rise in the past year is nearly three times that of the overall index. (See chart on page 1.)

. . . Is In A Holding Pattern

One further consideration is the recently-concluded accord between U.S. Treasury Secretary Baker and

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 11/19/86	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	201.587	+ 1.519	+21.789
Loans to Depository Inst.	1.103	+ .585	– .462
Float	1.480	+ .252	– .014
Total Reserve Bank Credit	220.717	+ 1.818	+24.249
Treasury Deposits with Federal Reserve Banks	3.696	– .034	+ .688
Currency in Circulation	205.566	+ .879	+14.008
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	164.518	– .136	+39.901
Member Bank Reserves:	11/19/86		
Total Reserves Held	54.279	+ 1.797	+ 9.205
Excess (Deficiency)	1.067	+ .250	+ .174
Net Free Reserves	.693	+ .299	+ .456
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (11/12/86)	712.8	+ 15.1‡	+ 14.6‡
M2 (October '86)	2,764.1	+ 9.6	+ 8.9
M3 (October '86)	3,443.5	+ 8.1	+ 8.3
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/21/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.38%	5.41%	5.46%
* Federal Agencies	5.55	5.54	5.56
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.48	7.22	7.78
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.80	5.80	5.85

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.60%	Dec.	5.80%
15- 29 days	5.60	Jan.	5.78
30- 59 days	5.75	Feb.	5.65
60- 89 days	5.75	Mar.	5.65
90-179 days	5.67	Apr.	5.60
180-239 days	5.70	May	5.58
240-270 days	5.70		

‡ Industrial Paper—Prime			
30- 89 days	5.83%	† Federal Funds	
90-120 days	5.77	Effective Rate	5.97%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,241r	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,687r	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.9r	0.6	4.1
Change in Consumer Prices*	Sep '86	3.6%	2.4%	2.4%
Change in Producer Prices*	Oct '86n	3.6%	4.8%	12.0%
Civilian Employment (Thousands of Persons) †	Oct '86	110,240	109,891	107,813
Unemployment as % of Civilian Labor Force†	Oct '86	7.0%	7.0%	7.1%
Personal Income*	Oct '86n	$ 3,524	$ 3,512r	$ 3,358
Leading Indicators Composite Index (1967=100)†	Sep '86	180.1	179.3	170.6
Industrial Production Index (1977=100) †	Oct '86n	125.2	125.2r	123.6
Net Change in Consumer Installment Credit †	Sep '86	$ 8.37	$ 3.39	$ 10.33
U.S. Merchandise Trade Balance	Sep '86	–$ 12.56	–$ 14.03	–$ 11.68
Plant and Equipment Expenditures*	4th Q'86	$383.99(a)	$380.52(a)	$397.88
Private Housing Starts (Thousands of Units)*	Oct '86n	1,648	1,652r	1,784
New Construction Expenditures*	Sep '86	$ 385.7	$ 380.4	$ 361.3
Total Business Inventories †	Sep '86n	$ 588.4	$ 590.1r	$ 579.5
Total Business Sales †	Sep '86n	$ 441.6	$ 429.3r	$ 427.2r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Japanese Finance Minister Miyazawa. While it clearly hastened a turn toward more monetary ease in Japan, it may have the opposite effect here. Designed to achieve dollar-yen exchange rate stability, a Fed easing move now might undermine the U.S. pledge that it would no longer seek additional yen appreciation. Although a question mark exists as to whether or not an implicit dollar-yen exchange rate target was established, the common perception is that one was, and that it just happens to be at about present levels.

What renewed dollar depreciation would also do is dash expectations among Japanese institutional investors that this accord will diminish the exchange rate risk associated with acquiring dollar-denominated assets; it goes without saying that the likelihood of lower domestic interest rates would be significantly dimmed if these capital inflows tapered off to any great extent. As a result, while the primary concern of the central bank remains keeping the business expansion on track, and additional monetary ease and lower short-term interest rates would be a big help, a blend of money supply, inflation rate and foreign exchange market considerations are likely to keep monetary policy in a holding pattern for the time being.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/5/86)	152,276	+ 228	– 5,330
New York City (11/12/86)	34,022	+ 171	+ 908
Commercial Paper (11/12/86)	330,809	+ 2,488	+42,467

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/5/86)	261,698	+ 4,327	+ 5,146
New York City (11/12/86)	60,837	+ 358	+ 937

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/5/86)	749,425	+ 5,273	+ 48,381
New York City (11/12/86)	165,355	+ 2,378	+ 12,684

Financial Markets

	Friday 11/21/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.48%	– .02	– 1.98
180-Day Bills†	5.58	– .07	– 2.10
Longest Bills†	5.73	– .07	– 2.08
Recent Issues:			
6 1/4s 11/31/88 (When Issued)	6.18	NA	
6 3/4s 9/30/90	6.56	– .13	
7 1/4s 11/15/96	7.16	– .11	
7 1/2s 11/15/16	7.44	– .09	
Municipals:			
Bond Buyer–20 Bond Index* (11/20/86)	6.78%	– .14	– 1.59
Blue List Total ($ Million)	$1,811	+$ 90	+ $183
30-Day Visible Supply ($ Million)	$4,159	+$1,379	– $727
Total	$5,970	+$1,469	– $544
Corporates:			
Moody's Aa Composite (11/20/86)	9.14%	– .11	– 1.80
30-Day Visible Supply ($ Million)	$2,710	–$1,402	+ $912
Stocks:			
Dow-Jones Averages:			
Industrials	1,893.56	+ 31.36	+ 432.78
Transportation	838.88	+ 4.63	+ 151.38
Utilities	211.48	+ 1.61	+ 45.60
65 Stocks	747.59	+ 9.03	+ 160.71
N.Y.S.E. Composite Index	140.94	+ .91	+ 24.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	172,460	+25,054	+ 47,464

* 46% Taxable equivalent 12.56%.

† Bond equivalent.

International Rates

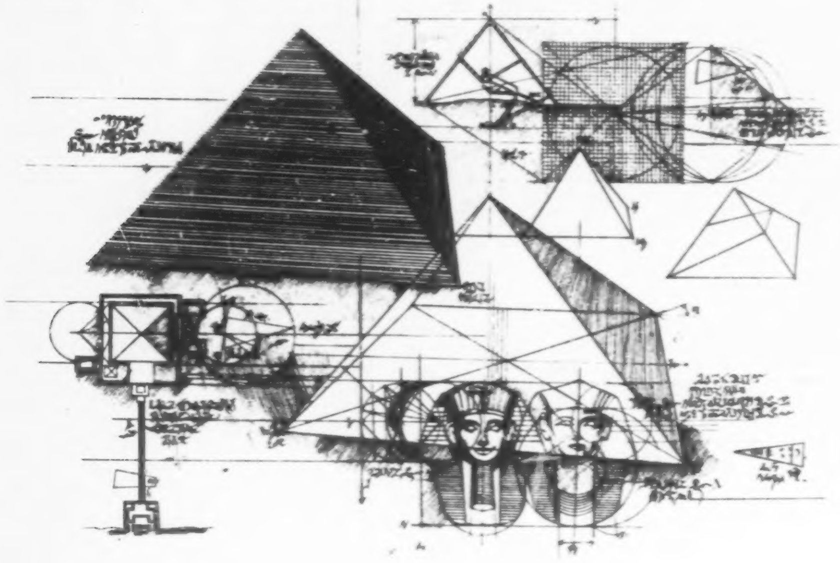
EURODOLLAR DEPOSIT RATES (bid)	Friday 11/21/86	Week Ago
Overnight	5.88%	5.81%
1 month	6.00	5.94
3 month	6.00	5.94
6 month	5.94	5.94
1 year	6.00	6.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.21%	7.27%
Long Term (7 to 15 yrs.)	8.08	8.18

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/21/86)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7212	1.3865
France	.1514	6.6070
Germany	.4956	2.0178
Italy	.0007157	1397.25
Japan	.006106	163.77
Mexico	.001179	848.00
Switzerland	.5940	1.6835
U.K.	1.4137	.7074

	Change Since Week Ago	Change Since 2/27/86
MH TRADE-WEIGHTED DOLLAR (11/19/86)	+.2%	+ 1.2%

INNOVATIVE PUBLIC PROJECTS REQUIRE
INNOVATIVE PUBLIC FINANCING



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The Manufacturers
Hanover
Financial
Digest
Economic Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 8, 1986 VOLUME XXIII, NUMBER 26

The Trade Deficit Stabilizes . . .

The narrowing of the trade deficit in October to $12.06 billion, the smallest monthly figure since August 1985, provides a glimmer of hope that the deterioration of the trade account finally has been arrested. Equally encouraging was the nearly ten percent rise in exports from year-ago levels to $19.33 billion, the highest monthly total since March 1985. This is an important development as prospects for continued growth of the U.S. economy depend to a large extent upon the performance of the trade account. The deepening trade deficit has been a major factor contributing to the disappointing performance of the economy. From a shortfall of $42.6 billion in 1982, the deficit probably will balloon to $165 billion this year. Clearly, such deficits are unsustainable and, if not halted, will further erode our manufacturing base, impede economic activity and, most dangerously of all, may spark greater protectionist sentiment in Congress which could have serious implications for the worldwide economy.

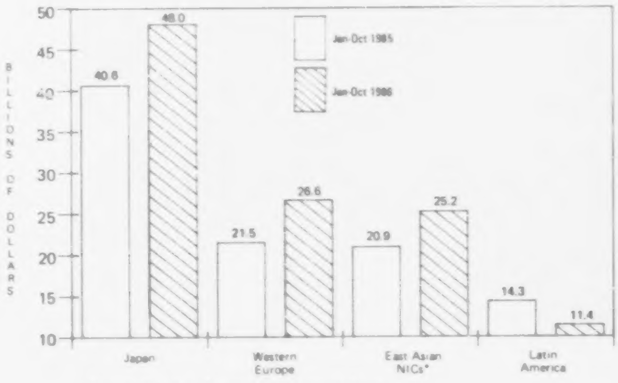
At the beginning of this year, many analysts had anticipated a significant improvement in the U.S. trade position based upon the dollar's substantial decline from its peak of February 1985. Further fueling optimism was the steep fall in oil prices witnessed during the spring. However, the expected turnaround never materialized. Instead, the deficit continued to grow to alarming proportions as imports surged while exports remained weak. This explains the relatively poor performance of the U.S manufacturing sector as well as the disappointing pace of overall economic activity.

There are several factors which play a role in keeping the deficit large. These include sluggish overseas growth, low grain prices which led to a narrowing of the agricultural surplus, the failure of importers to fully adjust their prices to the dollar's decline in order to maintain their market share and the increased importance of East Asia's newly industrialized countries (NICs) as suppliers of manufactured goods. As a result, the trade deficit has grown steadily larger for much of this year, fueling protectionist pressures in Congress.

. . . But Will It Narrow Enough . . .

Recent evidence, however, suggests that the decline of the dollar against some currencies may have arrested the deterioration in the deficit. The shortfall in August, September and October averaged $12.6 billion monthly compared with an average of $14.6 billion monthly during the first seven months of the year. Most of this improvement has been the result of a narrowing in the deficit with the major industrial countries—where the dollar's decline has been most evident. For instance, the shortfall with Germany fell from a peak of $1.72 billion in July to less than $1 billion in October while, with respect to Japan, the deficit contracted from $5½ billion in July to about $5 billion in October.

U.S. TRADE DEFICIT IN SELECTED AREAS
JANUARY-OCTOBER 1986 VS. JANUARY-OCTOBER 1985



*Includes Hong Kong, Singapore, South Korea and Taiwan

This is most encouraging because the major industrial countries account for a big chunk of the global U.S. trade deficit. During the first ten months of 1986, for example, the U.S. had a combined trade deficit of almost $61 billion with Japan and Germany, accounting for 44 percent of the total $139.9 billion shortfall. Therefore, stronger growth in the major industrial nations is one of the necessary preconditions for a sustained improvement in our trade balance. However, the outlook for such growth is not all that bright.

Manufacturers Hanover
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Earlier this year, hopes for faster growth in Europe were spurred by declining oil prices, falling domestic interest rates and low inflation, which greatly enhanced real purchasing power. But despite such positive developments, growth has remained disappointingly slow and is likely to remain so. Most European nations can expect to expand by only two to three percent in 1987, little changed from the growth rates of this year. As a result, unemployment will remain high, with double-digit rates prevailing in the U.K., France, Italy, Spain and the Netherlands among others. What is more, Japan's economy has been battered by the surge of the yen which has curtailed industrial production, reduced investment outlays and cut exports in both yen and volume terms. Not even the recent reduction in the discount rate to a postwar low of three percent nor the unveiling of a supplementary budget is likely to overcome such negative developments. In fact, the Japanese economy may grow by just two percent this year—its most sluggish performance since the recession of 1974 when the economy was battered by the aftermath of the first oil crisis.

. . . To Boost The U.S. Economy?

However, faster growth in Europe and Japan alone cannot be expected to cure all our trade woes. So deeply entrenched is the deficit that it will take a combination of favorable developments, including faster growth in Europe and Japan, to reduce the shortfall to more manageable proportions. Some of these factors, such as higher grain prices and rapid

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/3/86	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	203.698	+ 1.519	+21.249
Loans to Depository Inst.	.581	− .058	− .992
Float	1.332	+ .704	+ .088
Total Reserve Bank Credit	221.474	+ 2.467	+22.147
Treasury Deposits with Federal Reserve Banks	2.606	+ .132	+ .348
Currency in Circulation	207.163	+ 1.669	+13.426
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	165.896	+ 1.329	+38.722
	12/3/86		
Member Bank Reserves:			
Total Reserves Held	54.750	+ .480	+ 9.052
Excess (Deficiency)	1.330	+ .404	+ .278
Net Free Reserves	1.088	+ .536	+ 2.461
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (11/26/86)	711.6	+ 14.5‡	+ 14.7‡
M2 (October '86)	2,763.9	+ 9.6	+ 8.9
M3 (October '86)	3,443.8	+ 8.2	+ 8.8
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/5/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.40%	5.45%	5.48%
* Federal Agencies	5.60	5.58	5.57
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.94	6.94	7.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.82	5.82	5.85

‡Finance Company Paper—Prime	
5- 14 days	6.00%
15- 29 days	5.90
30- 59 days	5.95
60- 89 days	5.90
90-179 days	5.76
180-239 days	5.50
240-270 days	5.50

‡* Bankers' Acceptances	
Jan.	6.05%
Feb.	5.90
Mar.	5.80
Apr.	5.75
May	5.75
Jun.	5.75

‡Industrial Paper—Prime	
30- 89 days	5.98%
90-120 days	5.88

†Federal Funds Effective Rate 6.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,241	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,687	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.9	0.6	4.1
Change in Consumer Prices*	Oct '86n	2.4%	3.6%	4.8%
Change in Producer Prices*	Oct '86	3.6%	4.8%	12.0%
Civilian Employment (Thousands of Persons) †	Nov '86n	110,371	110,240	107,969
Unemployment as % of Civilian Labor Force †	Nov '86n	7.0%	7.0%	7.0%
Personal Income*	Oct '86	$ 3,524	$ 3,512	$ 3,358
Leading Indicators Composite Index (1967=100) †	Oct '86n	180.5	179.5r	171.6
Industrial Production Index (1977=100) †	Oct '86	125.2	125.2	123.6
Net Change in Consumer Installment Credit †	Oct '86n	$ 6.78	$ 7.72r	$ 6.56
U.S. Merchandise Trade Balance	Oct '86n	−$ 12.06	−$ 14.74r	−$ 14.17
Plant and Equipment Expenditures*	4th Q'86	$383.99(a)	$380.52(a)	$397.88
Private Housing Starts (Thousands of Units)*	Oct '86	1,648	1,652	1,784
New Construction Expenditures*	Oct '86n	$ 386.5	$ 380.3r	$ 374.0
Total Business Inventories †	Sep '86	$ 588.4	$ 590.1	$ 579.5
Total Business Sales †	Sep '86	$ 441.6	$ 429.3	$ 427.2

growth in the OPEC nations—which were once lucrative markets for U.S. exporters—are unlikely to develop. Still others, such as a greater export awareness among U.S. companies, will take a long time to develop. Finally, other factors such as the increased importance of the NICs of Asia as suppliers of manufactured goods and the economic weakness of Mexico and other Latin American nations will limit substantial progress on the trade front.

With respect to the NICs of Asia, for example, there has been a structural shift in their favor as a result of their low labor costs and the rise of the yen which has boosted their international competitive position. As a result, the U.S. trade deficit with these nations is likely to expand in the coming years, suggesting that some of the gains on trade with Europe will be offset by a rising imbalance with the Far East. During the first ten months of the year, the U.S. trade deficit with Korea, Hong Kong, Singapore and Taiwan rose by 20 percent from year-ago levels to $25.2 billion (see chart on page 1).

Therefore, although the worst is over, there has yet to be a decisive breakthrough on the trade front. As a result, the trade deficit will remain unacceptably large, suggesting that the dollar may well weaken further against the major world currencies such as the mark and the yen—and will begin to decline against those currencies against which until now it has remained steady.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/19/86)	152,531	– 21	5,149
New York City (11/26/86)	34,127	– 88	+ 669
Commercial Paper (11/26/86)	326,480	– 4,603	+36,289

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/19/86)	263,455	+ 776	+ 7,643
New York City (11/26/86)	61,180	– 12	+ 1,944

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/19/86)	758,702	+ 4,350	+ 49,712
New York City (11/26/86)	171,687	+ 3,880	+ 14,629

Financial Markets

	Friday 12/5/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.56%	+ .05	– 1.92
180-Day Bills†	5.64	+ .02	– 2.05
Longest Bills†	5.77	+ .04	– 2.11
Recent Issues:			
$6\frac{1}{4}$s 11/31/88	6.20	+ .02	
$6\frac{3}{4}$s 9/30/90	6.55	– .01	
$7\frac{1}{4}$s 11/15/96	7.08	– .05	
$7\frac{1}{2}$s 11/15/16	7.35	– .05	
Municipals:			
Bond Buyer–20 Bond Index* (12/4/86)	6.77%	+ .03	– 1.77
Blue List Total ($ Million)	$2,363	+ $408	+ $ 25
30-Day Visible Supply ($ Million)	$3,987	– $390	– $1.373
Total	$6,350	+ $ 18	– $1,348
Corporates:			
Moody's Aa Composite (12/4/86)	9.02%	+ .49	– 1.90
30-Day Visible Supply ($ Million)	$3,865	– $555	+ $2,285
Stocks:			
Dow-Jones Averages:			
Industrials	1,924.78	+ 64.12	+ 447.60
Transportation	860.87	+ 34.12	+ 167.28
Utilities	211.94	+ 4.72	+ 46.37
65 Stocks	760.28	+ 25.39	+ 168.32
N.Y.S.E. Composite Index	143.69	+ 4.67	+ 26.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	172,561	+34,833	+ 37,529

* 46% Taxable equivalant 12.54%.

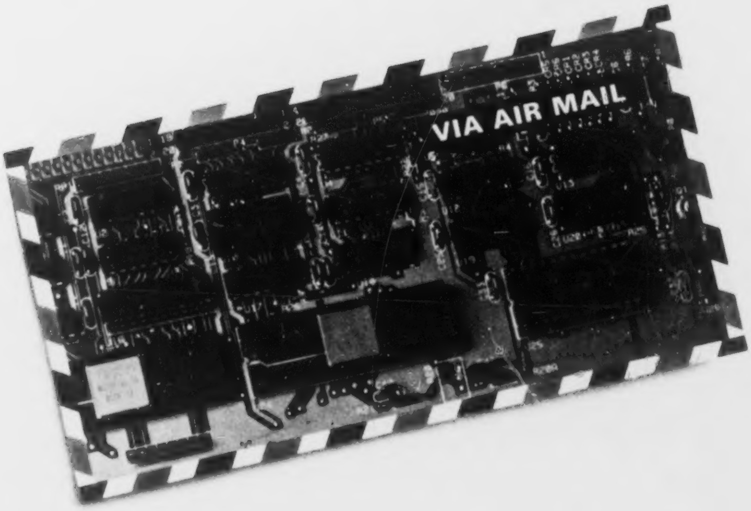
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/5/86	Week Ago
Overnight	5.13%	5.94%
1 month	6.25	6.25
3 month	6.00	6.00
6 month	5.94	5.94
1 year	5.94	6.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.07%	7.15%
Long Term (7 to 15 yrs.)	7.88	7.94

FOREIGN EXCHANGE SPOT RATES New York Opening (12/5/86)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7244	1.3805
France	.1528	6.5425
Germany	.5009	1.9965
Italy	.0007223	1384.50
Japan	.006148	162.65
Mexico	.001145	873.20
Switzerland	.6015	1.6625
U.K.	1.4281	.7002

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (12/5/86)	+ 1.0%	+ 2.3%



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The Manufacturers Hanover Financial Digest

Economic Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 22, 1986
VOLUME XXIII, NUMBER 27

Season's greetings
...and a HAPPY NEW YEAR to all!
1987

270 Park Avenue, New York, N.Y. 10017

Srecna Nova Godina
HAPPY N
Buon Anno Nuovo

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/17/86	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	206.624	+ .119	+20.096
Loans to Depository Inst.	.644	+ .261	− .357
Float	1.065	+ .186	− .072
Total Reserve Bank Credit	224.447	+ .937	+21.326
Treasury Deposits with			
Federal Reserve Banks	3.524	+ .730	− .252
Currency in Circulation	208.369	+ .448	+13.622
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	164.764	− .701	+38.829
	12/17/86		
Member Bank Reserves:			
Total Reserves Held	55.869	+ 1.192	+ 9.452
Excess (Deficiency)	.514	− .096	− .327
Net Free Reserves	.619	− .311	− .108

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (12/8/86)	720.7	+ 14.6‡	+ 15.1‡
M2 (November '86)	2,780.1	+ 8.2	+ 9.0
M3 (November '86)	3,460.6	+ 7.0	+ 8.8
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/18/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.75%	5.81%	5.86%
* Federal Agencies	5.88	5.80	5.72
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.48	7.22	7.59
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.18	6.08	6.10

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.25%	Jan.	6.85%
15- 29 days	6.70	Feb.	6.40
30- 59 days	6.40	Mar.	6.20
60- 89 days	6.10	Apr.	6.07
90-179 days	5.90	May	6.00
180-239 days	5.80	Jun.	5.95
240-270 days	5.80		

‡ Industrial Paper—Prime			
30- 89 days	6.45%	† Federal Funds	
90-120 days	6.08	Effective Rate	6.40%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,241r	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,686r	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.8r	0.6	4.1
Change in Consumer Prices*	Nov '86n	0.3%	0.2%	0.6%
Change in Producer Prices*	Nov '86n	2.4%	3.6%	8.4%
Civilian Employment (Thousands of Persons)†	Nov '86	110,371	110,240	107,969
Unemployment as % of Civilian Labor Force†	Nov '86	7.0%	7.0%	7.0%
Personal Income*	Nov '86n	$ 3,531	$ 3,520r	$ 3,372
Leading Indicators Composite Index (1967=100)†	Oct '86	180.5	179.5	171.6
Industrial Production Index (1977=100) †	Nov '86n	125.9	125.2	124.8
Net Change in Consumer Installment Credit †	Oct '86	$ 6.78	$ 7.72	$ 6.56
U.S. Merchandise Trade Balance	Oct '86	−$ 12.06	−$ 14.74	−$ 14.17
Plant and Equipment Expenditures*	1st Q'87n	$386.82(a)	$394.34(a) r	$377.94
Private Housing Starts (Thousands of Units)*	Nov '86n	1,598	1,628r	1,654
New Construction Expenditures*	Oct '86	$ 386.5	$ 380.3	$ 374.0
Total Business Inventories †	Oct '86n	$ 591.3	$ 588.1r	$ 582.0
Total Business Sales †	Oct '86n	$ 435.3	$ 442.2r	$ 426.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (12/3/86)	151,403	– 467	– 5,693
New York City (12/10/86)	34,229	– 161	+ 211
Commercial Paper (12/10/86)	324,974	+ 471	+32,365

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/86)	266,298	+ 2,984	+ 8,373
New York City (12/10/86)	61,619	– 668	+ 2,317

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/86)	764,729	+ 361	+ 53,420
New York City (12/10/86)	168,803	– 2,079	+ 12,543

Financial Markets

	Thursday 12/18/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.73%	+ .14	– 1.59
180-Day Bills†	5.81	+ .10	– 1.58
Longest Bills†	5.87	+ .07	– 1.64
Recent Issues:			
$6\frac{1}{4}$s 11/31/88	6.28	+ .08	
$6\frac{3}{4}$s 9/30/90	6.41	– .17	
$7\frac{1}{4}$s 11/15/96	7.10	– .02	
$7\frac{1}{2}$s 11/15/16	7.38	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (12/18/86)	6.92%	– .02	– 1.46
Blue List Total ($ Million)	$2,965	–$ 363	+ $ 829
30-Day Visible Supply ($ Million)	$1,126	–$2,001	– $ 262
Total	$4,091	–$2,364	+ $ 567
Corporates:			
Moody's Aa Composite (12/18/86)	9.03%	+ .02	– 1.45
30-Day Visible Supply ($ Million)	$3,233	–$ 503	+ $2,583
Stocks:			
Dow-Jones Averages:			
Industrials	1,912.82	– 10.83	+ 369.82
Transportation	825.34	– 15.78	+ 114.08
Utilities	211.02	+ .98	+ 36.06
65 Stocks	747.92	– 5.98	+ 131.57
N.Y.S.E. Composite Index	141.10	– .92	+ 19.78
N.Y.S.E. Avg. Daily Vol. for Week (000's)	152,383	+14,195	– 1,263

* 46% Taxable equivalent 12.81%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 12/18/86	Week Ago
Overnight	6.38%	5.75%
1 month	6.89	6.31
3 month	6.31	6.06
6 month	6.13	6.00
1 year	6.13	6.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.08%
Long Term (7 to 15 yrs.)	7.93	7.88

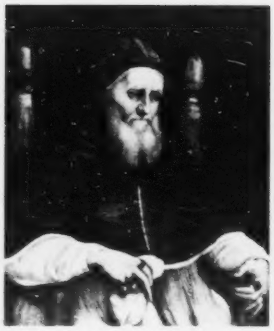
FOREIGN EXCHANGE SPOT RATES

New York Opening (12/18/86)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7246	1.3800
France	.1517	6.5910
Germany	.4976	2.0095
Italy	.0007170	1394.75
Japan	.006138	162.93
Mexico	.001121	892.30
Switzerland	.5928	1.6870
U.K.	1.4280	.7003

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR* (12/18/86)	+ 0.2%	– 3.4%

*Adjusted for Inflation

15th Century: Lorenzo de Medici and his family lead the cultural flowering of Florence.



1508: Pope Julius II commissions Michelangelo to paint the Sistine ceiling.

1717: George I is honored by the composition of Handel's *Water Music*.

18th Century: Thomas Jefferson becomes a noted patron of the arts.

1829: James Smithson of London bequeaths his fortune to the U.S. to establish a museum.

1892: Andrew Carnegie provides the funds to build Carnegie Hall.

Manufacturers Hanover is pleased to carry on the tradition of private sponsorship of the arts for the benefit of the public.

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Among the recent events which Manufacturers Hanover helped make possible: *The Vatican Collections: The Papacy and Art*, Metropolitan Museum of Art, Spring 1984; *Van Gogh in Arles*, Metropolitan Museum of Art, Fall 1984; *Treasures from The New York Public Library*, Spring 1985. Two ongoing programs for which we provide support are the American Ballet Theater and the subtitle program of the New York City Opera.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 1

Monday, January 5, 1987

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Despite Lower Mortgage Rates . . .

When mortgage interest rates approached single-digit levels early last year, many people assumed that housing starts and sales would return to levels near those reached during the halcyon days of the 1970s—the last time rates were so low. However, although residential construction has risen to respectable levels during the four years after the housing slump of 1981 and 1982, the monthly annualized level of housing starts has rarely topped two million units, and no annual total has come even close to the 1972 record of 2.36 million homes started.

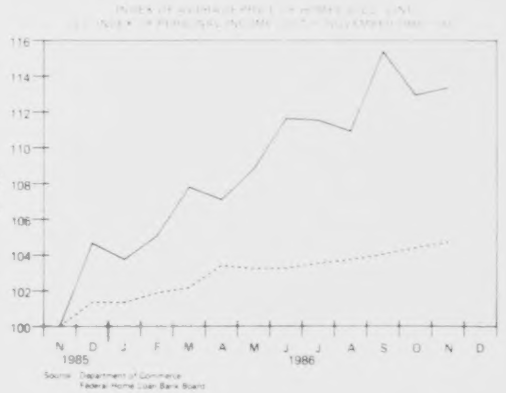
What makes this less than spectacular performance more curious is that it comes not only during a period of falling interest rates, but also at a time when twice as many Americans than in the early 1970s are in the 25 to 34-year age group when first homes are usually bought. Yet, in spite of these two favorable factors, housing starts fell in eight out of the first 11 months of 1986, and new single-family home sales in the third-quarter 1986 were 5.8 percent below year-earlier levels.

Certainly, the new tax laws are holding back construction of multifamily units—projects that in recent years have tended to be speculative developments or tax shelters. And the energy sector's problems in the South and Southwest have reduced demand in areas where homes were being erected at a furious pace just a few years earlier. Nonetheless, even after adjusting for these developments, housing is not reaching the levels that might normally be expected at today's interest rates.

The problem in housing does not seem to be demand. Given existing demographics and housing stock, at least 1.9 million additional units will be needed each year over the next four years. The problem appears to be that rising home prices have far outpaced any compensating drop in mortgage rates or growth in personal income. While the average U.S. interest rate on a mortgage dropped to 9.87 percent in November 1986 from 11.20 percent a year earlier, the price of a mortgaged home surged by 13.3 percent. By comparison, personal income rose only 4.7 percent during the same period (see chart).

. . . Many Americans Are Still Unable . . .

The upward rise in mortgages is visible in many major cities across the U.S. Using third-quarter 1986 data supplied by the Federal Home Loan Bank Board, monthly mortgage payments can be estimated in the 32 urban areas that contain half the population of the U.S. In 12 of these 32 areas, monthly payments rose despite the fact that interest rates fell in nearly all cities. The rise was greatest in the Portland, Oregon area, where monthly payments rose an astounding $100 in just a year's time mainly because of a 33-percent jump in the price of a mortgaged home. Still, at an estimated $769 a month, Portland's average monthly mortgage payment would appear to be more manageable than the $1,158 payment needed in San Francisco, or the $1,103 required in Washington, D.C.



Source: Department of Commerce
Federal Home Loan Bank Board

Although economic conditions, such as the energy problems in Dallas, did depress home prices in three areas from third-quarter 1985 to third-quarter 1986, in 18 cities prices jumped by double-digit rates as better employment prospects pushed up demand. In the rapidly growing Boston area prices rose 10.2 percent; in the New York City region, the average home sold for 16 percent more than a year earlier. And in Indianapolis, which added almost 25,000 jobs and where the unemployment rate fell a full percentage point over the past year, home prices rose 23 percent.

Manufacturers
Hanover
Economics
Department
17 270

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. . . To Afford Their Own Homes

Obviously, the old rule of thumb that a quarter of one's income should go toward housing costs is falling by the wayside. What is more, homebuyers are employing various techniques to offset—at least in part—the upward trend of home prices and mortgage payments. One method is a larger down payment, which explains why the New York City area's payment rose by only $5 in a year. Buyers in the region covered more than one third of the purchase price of their homes with a sizable down payment, thus holding their monthly mortgage bill to only $967, the seventh highest figure in the U.S. This is the case even though the area covering New York, New Jersey and Connecticut had the second highest price of a mortgaged home, $161,000.

Another option is to stretch out the mortgage maturity period, a practice most prevalent in the West. For other buyers, "settling" for a smaller house or one with fewer amenities is the way to achieve the American dream of homeownership. Still, as long as the rise in home prices and corresponding mortgage payments outpace growth in income, the pursuit of homeownership

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/86)	151,348	– 507	– 7,177
New York City (12/17/86)	34,093	– 136	– 347
Commercial Paper (12/17/86)	325,562	+ 588	+ 32,401

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/86)	268,994	+ 3,030	+12,485
New York City (12/17/86)	62,323	+ 559	+ 3,396

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/86)	769,005	+ 6,005	+52,055
New York City (12/17/86)	169,029	+ 240	+10,097

Financial Markets

	Wednesday 12/31/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.80%	+ .10	– 1.49
180-Day Bills †	5.84	+ .04	– 1.64
Longest Bills †	5.92	+ .05	– 1.71
Recent Issues:			
6 1/4s 12/31/88 (When Issued)	6.32	+ .07	
6 5/8s 12/31/90 (When Issued)	6.72	+ .11	
7 1/4s 11/15/96	7.23	+ .16	
7 1/2s 11/15/16	7.48	+ .15	
Municipals:			
Bond Buyer—20 Bond Index* (12/18/86)	6.92%	– .02	– 1.46
Blue List Total ($ Million)	$2,598	– $ 76	+$ 818
30-Day Visible Supply ($ Million)	$1,054	– $2,431	+$ 517
Total	$3,652	– $2,507	+$1,335
Corporates:			
Moody's Aa Composite (12/31/86)	9.00%	+ .02	– 1.69
30-Day Visible Supply ($ Million)	$3,233	– $ 503	+$2,583
Stocks:			
Dow-Jones Averages:			
Industrials	1,900.03	– 26.85	+350.83
Transportation	805.35	– 15.02	+102.36
Utilities	205.67	– 4.31	+ 29.79
65 Stocks	737.08	– 12.11	+120.58
N.Y.S.E. Composite Index	138.65	– 2.35	+ 17.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	112,990	– 10,565	+10,750

*46% Taxable equivalent 12.81%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Wednesday 12/31/86	Week Ago
Overnight	15.00%	6.13%
1 month	6.56	7.75
3 month	6.25	6.50
6 month	6.19	6.25
1 year	6.19	6.19

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.17%	7.13%
Long Term (7 to 15 yrs.)	7.97	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/31/86)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7245	1.3803
France	.1556	6.4250
Germany	.5187	1.9280
Italy	.0007440	1344.00
Japan	.006306	158.57
Mexico	.001083	923.00
Switzerland	.6200	1.6130
U.K.	1.4790	.6760

MH TRADE-WEIGHTED DOLLAR* (12/31/86)	Change Since Week Ago	Change Since 2/27/85
	–0–	–7.6%

*Adjusted for Inflation

will cause lasting changes to America and its economy. Fewer households will be able to participate in building home equity, and the need for two incomes will become the norm in American households.

Already, the affordability of local housing has created problems in filling certain jobs in tight labor markets. The Long Island Regional Planning Board estimates that at an annual salary of $34,000, a computer analyst would have to devote 45 percent of his or her salary to make payments on a house in Nassau County; an electronics technician would have to use 77 to 81 percent.

A final, more serious aspect of the growing unaffordability of housing is the consequences of excluding a larger and larger proportion of Americans from homeownership—a rite of financial passage that has been considered a fundamental right in postwar America. With the price of homes skyrocketing at a double-digit annual pace, this disenfranchisement will not only affect poor families, but will increasingly frustrate middle-class Americans who may find themselves with good-paying jobs but without the ability to purchase and own a home. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	12/24/86	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	208.704	+ 2.080	+21.090
Loans to Depository Inst.	.554	− .090	− .394
Float	1.482	+ .388	+ .092
Total Reserve Bank Credit	227.146	+ 2.670	+22.505
Treasury Deposits with Federal Reserve Banks	3.391	− .133	− .186
Currency in Circulation	209.785	+ 1.416	+13.841
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	163.173	− 1.591	− 2.723
	12/17/86		
Member Bank Reserves:			
Total Reserves Held	55.909	+ 1.228	+ 9.492
Excess (Deficiency)	.725	− .432	− .103
Net Free Reserves	.521	− .394	+ .010

		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (12/15/86)	722.5	+ 15.7‡	+ 15.2‡
M2 (November '86)	2,780.6	+ 8.3	+ 9.0
M3 (November '86)	3,460.3	+ 7.0	+ 8.8
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/31/86	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.70%	5.64%	5.66%
* Federal Agencies	6.00	5.95	5.85
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.22	6.76	7.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.00	6.00	6.05

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.00%	Jan.	7.50%
15- 29 days	7.50	Feb.	6.75
30- 59 days	7.00	Mar.	6.30
60- 89 days	6.15	Apr.	6.25
90-179 days	6.10	May	6.15
180-239 days	6.00	Jun.	6.05
240-270 days	6.00		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	
30- 89 days	7.25%		20.0%
90-120 days	6.40		

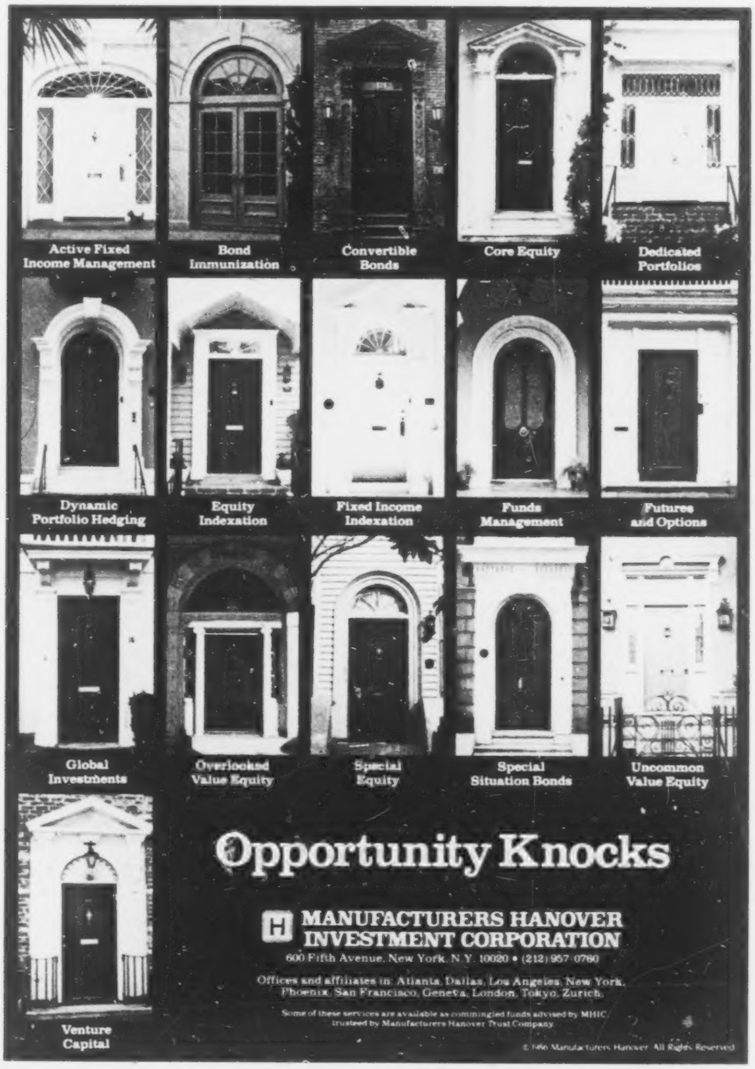
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,241	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,686	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.8	0.0	4.1
Change in Consumer Prices*	Nov '86	0.3%	0.2%	0.6%
Change in Producer Prices*	Nov '86	2.4%	3.6%	8.4%
Civilian Employment (Thousands of Persons) †	Nov '86	110,371	110,240	107,969
Unemployment as % of Civilian Labor Force †	Nov '86	7.0%	7.0%	7.0%
Personal Income*	Nov '86	$ 3,531	$ 3,520	$ 3,372
Leading Indicators Composite Index (1967=100) †	Nov '86n	182.5	180.4 r	171.6
Industrial Production Index (1977=100) †	Nov '86	125.9	125.2	124.8
Net Change in Consumer Installment Credit †	Oct '86	$ 6.78	$ 7.72	$ 6.56
U.S. Merchandise Trade Balance	Nov '86n	−$ 19.22	−$ 14.71 r	−$ 12.78
Plant and Equipment Expenditures*	1st Q'87	$386.82 (a)	$394.34 (a)	$377.94
Private Housing Starts (Thousands of Units)*	Nov '86	1,598	1,628	1,654
New Construction Expenditures*	Oct '86	$ 386.5	$ 380.3	$ 374.0
Total Business Inventories †	Oct '86	$ 591.3	$ 588.1	$ 582.0
Total Business Sales †	Oct '86	$ 435.3	$ 442.2	$ 426.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.


Active Fixed Income Management
Bond Immunization
Convertible Bonds
Core Equity
Dedicated Portfolios
Dynamic Portfolio Hedging
Equity Indexation
Fixed Income Indexation
Funds Management
Futures and Options
Global Investments
Overlooked Value Equity
Special Equity
Special Situation Bonds
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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 2

Friday, January 16, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

More Super Bowl Stats:

Next Sunday's Super Bowl XXI will see the Denver Broncos and New York Giants clash on the playing field, each team using a different strategy to win the coveted Super Bowl rings. And like their teams' dissimilar approaches to football, New York and Denver are prime examples of how each U.S. city utilizes a different game plan to play the game of economic growth. A comparison of New York's and Denver's differing economies illustrates that, although the U.S. as a whole is still growing, some cities are picking up yardage while others are being sacked for a loss.

In the New York-New Jersey-Connecticut area that the Giants (who play in East Rutherford, NJ) represent, growth has been paced largely by the financial and services sectors the same industries that have powered the current U.S. economic expansion. Without a doubt, New York is the financial capital of America, if not the world. With one of every seven people employed in finance, and one of every three workers in the consumer or business services field, New York City has demonstrated how the trend toward a services-producing economy can generate jobs. In the first ten months of 1986 alone, the New York region added 135,000 jobs to its payrolls and lowered its unemployment rate by 1½ percentage points.

This job expansion has supported other favorable economic trends, especially in construction. Midtown and downtown Manhattan and Long Island, NY, have some of the lowest office vacancy rates in the U.S. Construction over most of the region is brisk. The $1.5 billion World Financial Center in downtown Manhattan is nearing completion, and ground was broken recently for the first major office building in Brooklyn in 25 years. Projects in New Jersey are rising from the waterfront development of Hudson County to a $130 million project in Princeton. Retail sales in the New York City region were up 9.1 percent in October from a year ago. And total business activity as measured by the New York State Department of Commerce is up 3.7 percent in New York City and up 7.8 percent in nearby Long Island.

How New York And Denver Match Up . . .

In contrast, Denver's economy has seen Colorado's energy sector flattened harder than a running back hit by an entire defensive line. Operating rigs in the state shut down at a pace of almost four a month during 1986. Employment in Denver's oil and gas extraction industry fell by 13.4 percent in just a year. At the same time, Denver's unemployment rate rose by more than two percentage points, and total nonagricultural payrolls shrunk by 1,000 jobs.

SUPER BOWL RESULTS AND STOCK MARKET ACTIVITY

Year	Winner	Original Conference	Percent Change from End of Previous Year: Dow Jones Industrials	Percent Change from End of Previous Year: Standard & Poor's 500
1967	Green Bay Packers	NFC	15.2	20.1
1968	Green Bay Packers	NFC	4.3	7.7
1969	New York Jets	AFC	−15.2	−11.4
1970	Kansas City Chiefs	AFC	4.8	−0.1
1971	Baltimore Colts	NFC*	6.1	10.8
1972	Dallas Cowboys	NFC	14.6	15.8
1973	Miami Dolphins	AFC	−16.6	−17.5
1974	Miami Dolphins	AFC	−27.6	−29.6
1975	Pittsburgh Steelers	NFC*	38.3	31.5
1976	Pittsburgh Steelers	NFC*	17.9	19.1
1977	Oakland Raiders	AFC	−17.3	−11.5
1978	Dallas Cowboys	NFC	−3.1	1.1
1979	Pittsburgh Steelers	NFC*	4.2	12.3
1980	Pittsburgh Steelers	NFC*	14.9	25.8
1981	Oakland Raiders	AFC	−9.2	−9.7
1982	San Francisco 49ers	NFC	19.6	14.8
1983	Washington Redskins	NFC	20.3	17.3
1984	Los Angeles Raiders	AFC	−3.7	1.4
1985	San Francisco 49ers	NFC	27.7	26.3
1986	Chicago Bears	NFC	22.6	14.6

*Baltimore (now Indianapolis) and Pittsburgh are now members of the AFC.

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The Denver metropolitan area, which accounts for 60 percent of Colorado's economy, has also been hurt by problems in manufacturing and agriculture. Colorado's high-tech industries have been in a slump since 1985, and manufacturers of computer equipment are building only a portion of their finished products in the U.S., as more and more subassemblies are being shipped in from overseas. The continued fall in prices for corn and wheat has reduced the value of those farm crops. And lower consumption of red meat by the U.S. population has reduced the demand for the state's major agricultural product, livestock.

. . . On The Economic Playing Field

Understandably, the declines in energy and manufacturing have contributed to the problems in Denver's overbuilt real estate market. Leasing of office space in the Denver metro area during the first half of 1986 was down by 41 percent over the first half of 1985. The vacancy rate for office buildings skyrocketed from 0.1 percent in 1981 to almost 30 percent currently. Non-residential construction permits have trended downward, and the construction industry has lost 4,700 jobs.

However, despite these energy-related prob-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/31/86)	154,421	+ 491	– 10,181
New York City (1/7/87)	35,635	+ 379	– 1,699
Commercial Paper (1/7/87)	332,063	+ 6,115	+ 35,812

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/31/86)	288,846	+12,657	+28,656
New York City (1/7/87)	67,488	– 76	+ 7,839

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/31/86)	795,262	+13;729	+68,348
New York City (1/7/87)	174,924	+ 1,888	+12,833

Financial Markets

	Friday 1/16/87	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.48%	– .02	– 1.85
180-Day Bills †	5.58	– .06	– 2.00
Longest Bills †	5.67	– .05	– 2.08
Recent Issues:			
6 1/4s 12/31/88	6.16	+ .01	
6 5/8s 12/31/90	6.51	– .08	
7 1/4s 11/15/96	7.01	+ .02	
7 1/2s 11/15/16	7.33	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (1/15/87)	6.65%	– .05	– 1.45
Blue List Total ($ Million)	$1,736	– $ 146	+$ 298
30-Day Visible Supply ($ Million)	$3,202	+ $1,637	+$2,257
Total	$4,938	+ $1,491	+$2,555
Corporates:			
Moody's Aa Composite (1/15/87)	8.84%	– .08	– 1.73
30-Day Visible Supply ($ Million)	$2,165	– $ 523	+$ 855
Stocks:			
Dow-Jones Averages:			
Industrials	2,076.63	+ 70.72	+539.93
Transportation	872.21	+ 18.29	+155.57
Utilities	222.82	+ 3.85	+ 50.07
65 Stocks	802.48	+ 22.39	+187.46
N.Y.S.E. Composite Index	152.21	+ 3.82	+ 31.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	208,158	+ 18,238	+58,548

*46% Taxable equivalent 12.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/16/87	Week Ago
Overnight	5.88%	5.81%
1 month	6.06	6.00
3 month	6.06	6.00
6 month	6.00	5.94
1 year	6.06	6.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.17%
Long Term (7 to 15 yrs.)	7.93	7.97

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/16/87)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7329	1.3644
France	.1621	6.1700
Germany	.5391	1.8549
Italy	.0007582	1319.00
Japan	.006486	154.18
Mexico	.001056	947.20
Switzerland	.6464	1.5470
U.K.	1.5060	.6640

MH TRADE-WEIGHTED DOLLAR* (1/16/87)	Change Since	
	Week Ago	2/27/85
	–0.8%	–7.7%

*Adjusted for Inflation

lems, Denver has a much better economic field position than oil-dominated cities like Houston. Only two percent of Denver's labor force is involved in mining; only 18 percent of its office space is occupied by energy companies. Denver's economy is much more dependent upon its central location in the West, which enables the city to be a major distribution and transportation center in that region. Financial and services jobs have captured an increasing share of Denver's employment. One of every four Denver workers now holds a job in a services industry; one in 12 is in finance.

And what other economic significance does the Super Bowl have, besides the estimated $70 to $100 million fans will spend in Southern California next weekend? One theory holds that when the National Football Conference team wins, the stock market has a good year. In 19 of the 20 Super Bowl years, when the winner was a team in the NFC, the stock market rose; if an AFC team won, the stock market fell (see table on page 1). If the Giants win, the market should continue to rise, according to this "theory." However, if the Broncos prevail, watch out for the bears on Wall Street. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	1/1[illegible]	Week Ago	Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	211.096	− 1.852	+22.185
Loans to Depository Inst.	.311	− .387	− .304
Float	.767	− .201	− .261
Total Reserve Bank Credit	229.062	− 2.432	+23.972
Treasury Deposits with			
Federal Reserve Banks	4.306	− 1.653	− .726
Currency in Circulation	208.808	− 2.417	+14.759
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	163.606	− 1.909	+37.094
	1/14/87		
Member Bank Reserves:			
Total Reserves Held	60.196	+ 1.204	+11.560
Excess (Deficiency)	.707	− 1.396	− .569
Net Free Reserves	.416	− .783	+ .758
		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (1/7/87)	749.3	+ 23.5‡	+ 17.2‡
M2 (December '86)	2,804.3	+ 9.3	+ 9.2
M3 (December '86)	3,488.6	+ 7.4	+ 9.0
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/16/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.37%	5.40%	5.44%
* Federal Agencies	5.57	5.56	5.56
* Municipal Notes—High Grade (46% Taxable Equivalent)	5.55	6.02	6.48
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.85	5.80	5.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.85%	Feb.	5.80%
15- 29 days	5.88	Mar.	5.75
30- 59 days	5.85	Apr.	5.70
60- 89 days	5.83	May	8.65
90-179 days	5.78	Jun.	5.63
180-239 days	5.73	Jul.	5.60
240-270 days	5.73		

‡Industrial Paper—Prime			
30- 89 days	5.83%	†Federal Funds	
90-120 days	5.77	Effective Rate	9.0%

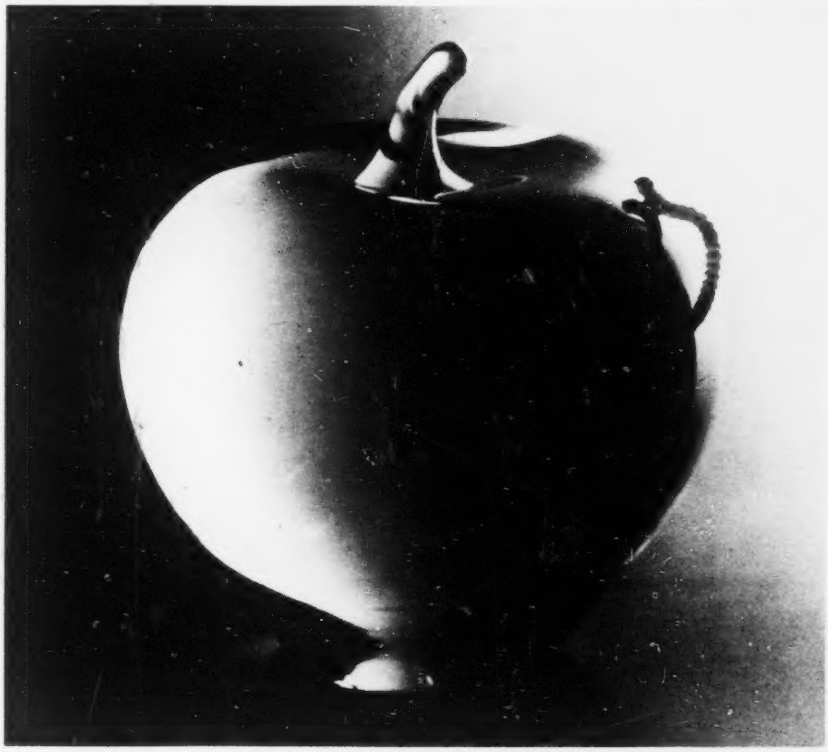
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'86	$ 4,241	$ 4,176	$ 4,031
Gross National Product (1982 Dollars)*	3rd Q'86	$ 3,686	$ 3,661	$ 3,604
Percent Change, Annual Rate	3rd Q'86	2.8	0.6	4.1
Change in Consumer Prices*	Nov '86	3.6%	2.4%	7.2%
Change in Producer Prices*	Dec '86n	0.0%	2.4%	7.2%
Civilian Employment (Thousands of Persons)†	Dec '86n	110,637	110,432r	108,149r
Unemployment as % of Civilian Labor Force†	Dec '86n	6.7%	6.9%r	7.0%r
Personal Income*	Nov '86	$ 3,531	$ 3,520	$ 3,372
Leading Indicators Composite Index (1967=100)†	Nov '86	182.5	180.4	171.6
Industrial Production Index (1977=100) †	Dec '86n	126.6	126.0r	125.6
Net Change in Consumer Installment Credit †	Nov '86n	$ 4.02	$ 7.21r	$ 5.64
U.S. Merchandise Trade Balance	Nov '86	−$ 19.22	−$ 14.71	−$ 12.78
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Nov '86	1,598	1,628	1,654
New Construction Expenditures*	Nov '86n	$ 377.0	$ 379.7r	$ 357.6
Total Business Inventories †	Nov '86n	$ 590.6	$ 591.6r	$ 582.7
Total Business Sales †	Nov '86n	$ 437.1	$ 435.8r	$ 431.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 3

Monday, February 2, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Dollar Plunges . . .

The dollar has begun the New Year on a decidedly weaker note, slumping to its lowest level in 6½ years against the German mark and breaching record lows with respect to the Japanese yen. The decline against the yen is particularly noteworthy, since it came despite massive intervention by the Bank of Japan. Yet the foreign exchange markets are clearly unimpressed by such intervention and continue to sell the dollar heavily.

More than anything else, it was the announcement of a record $19.22 billion trade deficit in November which once more undermined confidence in the dollar and sent it tumbling. In particular, the shortfall suggested to many market participants that the U.S. Administration would not be adverse to a further weakening of the dollar in order to rectify the huge trade imbalance. Indeed, such sentiments were validated by the Administration's seeming lack of concern over the dollar's plight, and by its continued refusal to sanction Federal Reserve intervention on behalf of the beleaguered dollar.

A close examination of the dollar's performance suggests that the Administration's attitude is not unfounded. The dollar's steep descent from its lofty peaks of February 1985 will, at some point, help to stimulate exports. However, according to this Bank's trade-weighted dollar index, the dollar's overall decline has not yet been sufficient to narrow substantially our deficit. This is because the steep fall of the dollar against such key currencies as the Japanese yen, German mark and Swiss franc has obscured the fact that it hasn't fallen much against the currencies of a number of other countries with which we are doing a growing volume of business. In addition, in "real" terms, adjusted for inflation, the dollar's decline is even less noticeable.

. . . But Not Against All Currencies . . .

For example, while the dollar has plunged against the mark and yen during this period, it has, in fact, gained ground against the currencies of such significant trading partners as South Korea and Australia while declining only slightly against the currencies of Taiwan, Singapore and Canada. Therein lies a major reason behind the failure of our overall trade deficit to improve. As a result, any emphasis on the mark and yen as benchmarks of the dollar's performance is highly misleading, since Germany and Japan account for just 17 percent of total U.S. exports. Canada, on the other hand, accounts for a more significant 21 percent share.

Furthermore and perhaps most important is the fact that on an inflation-adjusted basis, the dollar's decline is even less. The MH trade-weighted dollar at midweek (see table)

MANUFACTURERS HANOVER'S TRADE-WEIGHTED DOLLAR

			Percent Change:		
Country	Feb. 1985 High: Currency/ U.S. $	Jan. 28 Actual: Currency/ U.S. $	Jan. 28 vs. Feb. 85	Export Price Caused vs. Feb. 85	Real vs. Feb. 85
Canada*	1.388	1.3375	– 3.6	7.2	– 10.8
Japan	261.753	150.60	– 42.5	– 21.2	– 21.3
Mexico*	239.230	971.50	306.1	167.3	138.8
Germany	3.398	1.7738	– 47.8	– 2.7	– 45.1
United Kingdom	0.934	0.647	– 30.7	– 5.5	– 25.2
Taiwan	39.280	35.11	– 10.6	– 3.0	– 7.6
South Korea	843.800	857.20	1.6	6.2	– 4.6
France	10.387	5.9130	– 43.1	– 5.3	– 37.8
Italy	2115.059	1265.75	– 40.2	– 4.6	– 35.6
Hong Kong	7.804	7.7630	– 0.5	3.4	– 3.9
Netherlands	3.865	2.0040	– 48.2	– 19.1	– 29.1
Brazil*	3.866	15.51	301.2	332.8	– 31.6
Venezuela*	7.500	14.50	93.3	14.8	78.5
Australia	1.409	1.517	7.6	– 0.9	8.5
Belgium	68.542	36.80	– 46.3	– 11.9	– 34.4
China*	2.858	3.7314	30.6	5.0	25.5
Singapore*	2.261	2.1250	– 6.0	– 1.5	– 4.5

*Uses CPI: Others use export price indexes.

Jan. 28 vs. Feb. 85 Percent Change:
0.99 Actual
9.15 Exp. price caused
–8.16 Real

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was off only about eight percent in real terms from its February 1985 high. While the dollar's real value is down substantially against such key European currencies as the mark, it has not declined that much in real terms with respect to the yen, witness our continued swelling trade deficit with Japan. Indeed, this Bank's calculations reveal that the dollar has fallen by only 20 percent against the yen when Japan's much slower rate of inflation is taken into account. As a consequence, the dollar may no longer be overvalued against the yen—but neither is it low enough to make a significant dent in our bilateral trade deficit with Japan, which reached $60 billion last year.

On the other hand, with regard to the mark, the dollar's decline has translated into more of a real drop than with respect to the yen. This is because the U.S. inflation rate has paralleled Germany's more closely than Japan's. As a result, the U.S. dollar is now undervalued against the mark, suggesting that the U.S. should experience a major narrowing of its bilateral deficit with Germany this year.

. . . Keeping The Trade Deficit Large

However, until the dollar falls further in

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/14/87)	156,059	+ 972	− 7,959
New York City (1/21/87)	36,057	+ 566	− 678
Commercial Paper (1/21/87)	336,511	+ 2,845	+ 38,459

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/14/87)	283,341	− 3,273	+25,677
New York City (1/21/87)	64,801	− 846	+ 5,901

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/14/87)	789,556	− 4,224	+59,564
New York City (1/21/87)	175,010	+ 1,757	+17,266

Financial Markets

	Friday 1/30/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.73%	+ .21	− 1.46
180-Day Bills†	5.80	+ .26	− 1.68
Longest Bills†	5.89	+ .20	− 1.66
Recent Issues:			
6⅛s 1/31/89 (When Issued)	6.28	+ .10	
6⅝s 12/31/90	6.60	+ .10	
7¼s 11/15/96	7.16	+ .11	
7½s 11/15/16	7.47	+ .05	
Municipals:			
Bond Buyer—20 Bond Index* (1/29/87)	6.56%	+ .02	− 1.30
Blue List Total ($ Million)	$1,643	+ $ 173	+$ 447
30-Day Visible Supply ($ Million)	$3,292	+ $1,411	+$2,961
Total	$4,935	+ $1,584	+$3,408
Corporates:			
Moody's Aa Composite (1/29/87)	8.84%	+ .02	− 1.60
30-Day Visible Supply ($ Million)	$2,647	− $ 180	+$1,622
Stocks:			
Dow-Jones Averages:			
Industrials	2,158.04	+ 56.52	+587.05
Transportation	874.88	+ 5.69	+126.42
Utilities	224.72	− 0.64	+ 47.81
65 Stocks	822.17	+ 13.60	+189.67
N.Y.S.E. Composite Index	156.11	+ 2.09	+ 33.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	179,242	− 33,344	+32,934

*46% Taxable equivalent 12.15%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/30/87	Week Ago
Overnight	6.06%	5.88%
1 month	6.06	6.00
3 month	6.06	6.00
6 month	6.06	6.00
1 year	6.13	6.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/30/87)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7460	1.3405
France	.1639	6.1000
Germany	.5464	1.8300
Italy	.0007683	1301.50
Japan	.006502	153.80
Mexico	.001025	975.55
Switzerland	.6431	1.5550
U.K.	1.5215	.6572

MH TRADE-WEIGHTED DOLLAR* (1/30/87)	Change Since Week Ago	Change Since 2/27/85
	+1.0%	−7.6%

*Adjusted for Inflation

real terms against all and not just some of the currencies of our major trading partners, the trade deficit will remain a significant impediment to economic growth. In this regard, the dollar must decline against the currencies of such newly industrialized countries of Asia as Taiwan and Korea who have become major trading partners of the U.S. and who are running huge bilateral trade surpluses with us. Taiwan, which is our fourth largest source of imports behind Japan, Canada and Germany, is a notable example. Although it has recently allowed its currency to appreciate slowly against the dollar, its $15.6 billion trade surplus in 1986 (third highest in the world behind Japan and Germany) of which $13.5 billion was accounted for by the U.S., suggests that its currency is still well undervalued.

The widening of the trade deficit has weakened the U.S. economy, and most dangerously of all, aggravated protectionist sentiment in Congress. Thus, unless the dollar falls across the board and not just against some currencies, protectionist legislation may be inevitable—with negative consequences for the world economy. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	1/28/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	211.774	+ 2.535	+20.728
Loans to Depository Inst.	.979	+ .581	+ .138
Float	4.303	+ 3.273	+ 3.324
Total Reserve Bank Credit	234.192	+ 6.711	+25.834
Treasury Deposits with Federal Reserve Banks	15.853	+ 7.551	− .634
Currency in Circulation	205.945	− 1.033	+15.091
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	163.606	− 1.443	+36.184
	1/28/87		
Member Bank Reserves:			
Total Reserves Held	56.709	− 3.536	+10.976
Excess (Deficiency)	1.170	+ .264	+ .249
Net Free Reserves	.708	+ .092	+ .161

		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (1/19/87)	732.2	+ 23.6‡	+ 17.8‡
M2 (December '86)	2,804.5	+ 9.3	+ 9.3
M3 (December '86)	3,488.1	+ 7.3	+ 9.0
Domestic Nonfinancial Debt (3rd Q'86)	7,410.3	+ 11.4	+ 13.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/30/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.52%	5.53%	5.53%
* Federal Agencies	5.70	5.65	5.65
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.40	6.67	7.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.90	5.90	6.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.95%	Feb.	5.90%
15- 29 days	5.93	Mar.	5.84
30- 59 days	5.93	Apr.	5.80
60- 89 days	5.90	May	5.72
90-179 days	5.85	Jun.	5.70
180-239 days	5.75	Jul.	5.68
240-270 days	5.75		

‡Industrial Paper—Prime			
30- 89 days	5.93%	†Federal Funds	
90-120 days	5.85	Effective Rate	6.23%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86n	$ 4,268	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86n	$ 3,702	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86n	1.7	2.8	2.1
Change in Consumer Prices*	Dec '86n	2.4%	3.6%	4.8%
Change in Producer Prices*	Dec '86	0.0%	2.4%	7.2%
Civilian Employment (Thousands of Persons) †	Dec '86	110,637	110,432	108,149
Unemployment as % of Civilian Labor Force †	Dec '86	6.7%	6.9%	7.0%
Personal Income*	Dec '86n	$ 3,555	$ 3,527r	$ 3,418
Leading Indicators Composite Index (1967=100) †	Nov '86	182.5	180.4	171.6
Industrial Production Index (1977=100) †	Dec '86	126.6	126.0	125.6
Net Change in Consumer Installment Credit †	Nov '86	$ 4.02	$ 7.21	$ 5.64
U.S. Merchandise Trade Balance	Dec '86n	−$ 10.66	−$ 15.44r	−$ 14.22
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Dec '86n	1,802	1,585r	1,882
New Construction Expenditures*	Nov '86	$ 377.0	$ 379.7	$ 357.6
Total Business Inventories †	Nov '86	$ 590.6	$ 591.6	$ 582.7
Total Business Sales †	Nov '86	$ 437.1	$ 435.8	$ 431.0

*Seasonally adjusted annual rate. Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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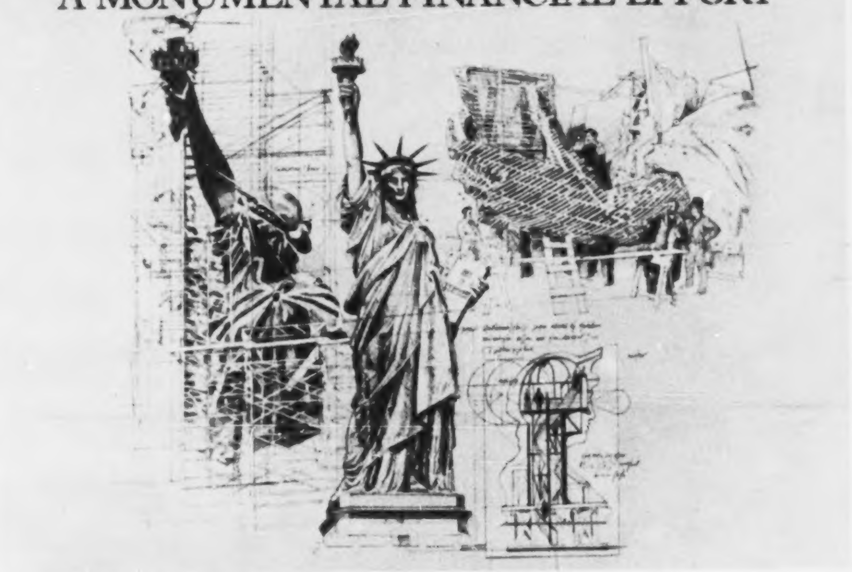

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 4

Friday, February 13, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Federal Reserve . . .

One popular Wall Street diversion from the midwinter doldrums is speculation regarding the future course of monetary policy. According to some analysts, the lethargic pace of real gross national product growth in the fourth quarter of last year, and the widespread belief that the current quarter may not be much better, will soon justify another, overt Federal Reserve easing move in the not-too-distant future.

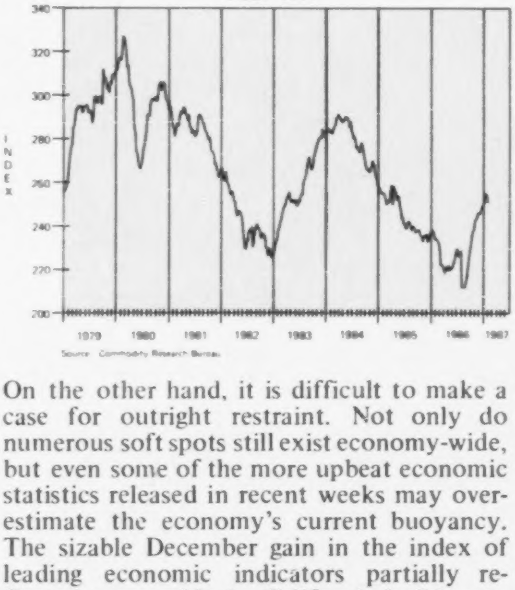
Others, however, see the situation quite differently. They view the recent string of somewhat brighter economic statistics, rising commodities prices, stronger bank loan demand and the vulnerable state of the dollar as justifying not only a postponement of more ease, but perhaps, even a modest turn toward restraint. In fact, a few believe that this may have already occurred, and cite as evidence a Federal funds rate persistently hovering above six percent in particular, and rising short-term interest rates in general.

This debate provided the backdrop for the Fed's policy-setting Federal Open Market Committee (FOMC) meeting this week. As usual, the health of the economy was the focus of discussion—and, as usual, uncertainty abounded. For depending upon the prognosticator, the pace of business is either about to: accelerate, if the index of leading economic indicators and January's sharp employment gains are to be believed; move sideways, with growth flattening in the current quarter in response to the tax-reform induced shifting of spending from this year to last, or; contract, as consumers scale back spending as a result of hefty debt burdens and modest incomes growth. According to the latter view, the nearly six percent month-over-month decline in January retail sales is a harbinger of things to come. Whoever is right remains to be seen, but in light of such an array of views, the appropriate stance of monetary policy ranges all the way from more ease to modest restraint.

. . . May No Longer Be . . .

For the policymaker who has to sift through all this, there are probably sufficient elements of truth in all three views to produce something of a policy standoff. Looking at the economy alone, there are few compelling reasons to alter the Fed's current policy stance either way. Take, for example, the case for easing. Despite a lackluster 1.7 percent fourth quarter real GNP growth rate, the quarter ended on a strong note with employment, factory orders and industrial production all posting good-sized gains. What is more, some of this strength spilled over into the current quarter, at least according to the National Association of Purchasing Management, whose members reported a strong pickup in business activity in January. These developments suggest a diminished need for monetary stimulus.

TUESDAY SPOT PRICE INDEX – RAW INDUSTRIALS
(1967=100)



Source: Commodity Research Bureau

On the other hand, it is difficult to make a case for outright restraint. Not only do numerous soft spots still exist economy-wide, but even some of the more upbeat economic statistics released in recent weeks may overestimate the economy's current buoyancy. The sizable December gain in the index of leading economic indicators partially reflected a scramble by California builders to secure permits before a fee increase; January's hefty employment gain was ballooned to some extent by the inability of seasonal adjustment factors to compensate fully for the fact that the usual post-holiday layoffs in retail trade did not materialize this year. What is more, such upcoming statistics as housing starts and industrial production are likely to paint a picture of an economy growing at only a modest clip. With so many uncertainties surrounding the economy's health, an overt tightening of the credit reins and a sustained rise in interest rates would appear to be unwarranted.

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. . . Pushing Interest Rates Lower

However, while the economy may have produced a policy debate standoff, this was not the only, or perhaps even most important thing, on the minds of the FOMC. The issue of the downside vulnerability of the dollar in the foreign exchange markets, and its implications for both the rate of inflation and the appetite of foreign investors for U.S. dollar-denominated Treasury securities, has almost certainly moved to center stage in the Fed's policy deliberations in recent weeks. This is because the dollar's better than five percent drop against the German mark and three percent decline against the Japanese yen since the turn of the year alone not only raises the specter of a dollar "free fall", but will also serve to push already escalating import prices even higher. Since this comes on top of firming oil prices, and rapidly rising raw industrial commodities prices, the Fed may soon begin to find its policy flexibility hampered by a deteriorating price outlook, as inflation concerns again become a major headache (see chart on page 1).

Limited monetary restraint and higher short-term interest rates might be considered something of a preemptive strike. By helping to shore up the dollar in the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/28/87)	153,676	− 2,448	− 12,696
New York City (2/4/87)	36,016	+ 331	− 870
Commercial Paper (2/4/87)	333,281	− 1,248	+ 37,264

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/28/87)	281,959	+ 489	+24,541
New York City (2/4/87)	66,310	+ 367	+ 8,686

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/28/87)	792,722	+ 2,416	+72,283
New York City (2/4/87)	173,542	− 5,255	+17,911

Financial Markets

	Friday 2/13/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.80%	− .01	− 1.43
180-Day Bills †	5.85	− .05	− 1.61
Longest Bills †	6.02	+ .11	− 1.58
Recent Issues:			
6 1/8s 1/31/89	6.38	+ .03	
6 1/2s 2/15/90 (When Issued)	6.56	NA	
7 1/4s 11/15/96	7.25	+ .09	
7 1/2s 11/15/16	7.56	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (2/12/87)	6.67%	+ .10	− .95
Blue List Total ($ Million)	$1,889	+ $ 217	+$ 514
30-Day Visible Supply ($ Million)	$2,093	− $ 323	+$1,413
Total	$3,982	− $ 106	+$1,927
Corporates:			
Moody's Aa Composite (2/12/87)	8.91%	+ .03	− 1.38
30-Day Visible Supply ($ Million)	$2,307	+ $1,430	+$1,257
Stocks:			
Dow-Jones Averages:			
Industrials	2,183.35	+ 25.31	+518.90
Transportation	922.36	+ 47.48	+149.45
Utilities	220.92	− 3.80	+ 40.27
65 Stocks	837.89	+ 15.72	+175.89
N.Y.S.E. Composite Index	159.56	+ 3.45	+ 32.91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	174,104	− 33,636	+33,994

*46% Taxable equivalent 12.35%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/13/87	Week Ago
Overnight	5.94%	5.88%
1 month	6.25	6.06
3 month	6.38	6.13
6 month	6.31	6.13
1 year	6.38	6.19
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/13/87)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7438	1.3445
France	.1639	6.1030
Germany	.5467	1.8290
Italy	.0007680	1302.00
Japan	.006510	153.62
Mexico	.0009309	1009.15
Switzerland	.6466	1.5465
U.K.	1.5192	.6582

MH TRADE-WEIGHTED DOLLAR* (2/13/87)	Change Since Week Ago	Change Since 2/27/85
	+0.3%	−6.2%

*Adjusted for Inflation

foreign exchange markets, it would tend to dampen import price increases and might also contain any erosion in foreign investor interest in holding U.S. dollar debt securities, especially Treasury issues. It may not have been purely coincidental that interest rates firmed prior to the Treasury's recent $29 billion refunding operation; with the yield spread widening between U.S. and foreign (especially Japanese) government securities, the attractiveness of Treasury securities to foreign buyers was certainly enhanced. Which brings us to the question: Has the rise in short-term interest rates been a reflection of such factors as hefty Treasury cash balances and rising bank loan demand, or something else—the "else", of course, being the widely speculated snugging of monetary policy?

From this vantage point, the jury is still out. But looking at several of the factors which usually influence Fed policy—the economy, inflation rate prospects and foreign exchange market trends—one may not be blamed for concluding that with few compelling reasons to nudge interest rates lower, and several good reasons to do the opposite, the Fed, at the very least, appears to have looked the other way as interest rates moved higher. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/11/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	202.457	− 6.585	+21.973
Loans to Depository Inst.	.401	− .047	− .195
Float	.532	− .401	− .599
Total Reserve Bank Credit	221.312	− 6.986	+23.235
Treasury Deposits with Federal Reserve Banks	3.832	− 9.063	− 3.022
Currency in Circulation	206.440	+ .776	+15.166
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	166.675	+ .867	+38.444
Member Bank Reserves:	2/11/87		
Total Reserves Held	56.296	− .458	+10.451
Excess (Deficiency)	1.387	+ .168	+ .200
Net Free Reserves	1.227	+ .470	+ .222
		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (2/2/87)	736.9	+ 18.1‡	+ 17.1‡
M2 (January '87)	2,819.0	+ 8.5	+ 9.5
M3 (January '87)	3,511.5	+ 8.0	+ 8.8
Domestic Nonfinancial Debt (3rd Q'86)	7,410.3	+ 11.4	+ 13.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/13/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.64%	5.66%	5.67%
* Federal Agencies	5.87	5.85	5.85
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.94	6.85	7.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.15	6.15	6.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.13%	Mar.	6.10%
15- 29 days	6.15	Apr.	6.07
30- 59 days	6.18	May	6.00
60- 89 days	6.15	Jun.	5.95
90-179 days	6.10	Jul.	5.93
180-239 days	6.00	Aug.	5.92
240-270 days	6.00		

‡Industrial Paper—Prime			
30- 89 days	6.17%	†Federal Funds	
90-120 days	6.08	Effective Rate	6.10%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period			Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th	Q'86	$ 4,268	$ 4,231	$ 4,088
Gross National Product (1982 Dollars)*	4th	Q'86	$ 3,702	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th	Q'86	1.7	2.8	2.1
Change in Consumer Prices*	Dec	'86	2.4%	3.6%	4.8%
Change in Producer Prices*	Jan	'87n	7.2%	− 1.2%r	− 8.4%r
Civilian Employment (Thousands of Persons)†	Jan	'87n	111,011	110,637r	108,892
Unemployment as % of Civilian Labor Force†	Jan	'87n	6.7%	6.7%	6.8%
Personal Income*	Dec	'86	$ 3,555	$ 3,527	$ 3,418
Leading Indicators Composite Index (1967=100)†	Dec	'86n	186.1	182.2r	173.6
Industrial Production Index (1977=100) †	Jan	'87n	126.9	126.4r	126.2
Net Change in Consumer Installment Credit †	Dec	'86n	$ 0.11	$ 3.28r	$ 6.48
U.S. Merchandise Trade Balance	Dec	'86	−$ 10.66	−$ 15.44	−$ 14.22
Plant and Equipment Expenditures*	1st	Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Dec	'86	1,802	1,585	1,882
New Construction Expenditures*	Dec	'86n	$ 376.0	$ 377.9r	$ 365.5
Total Business Inventories †	Dec	'86n	$ 587.2	$ 590.1r	$ 583.2r
Total Business Sales †	Dec	'86n	$ 448.3	$ 435.9r	$ 431.8r

*Seasonally adjusted annual rate. Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 5

Monday, March 2, 1987

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

The Manufacturing Horizon Brightens . . .

Although overall economic growth remains subdued, one important aspect of the current upswing may be changing. In the 2½ years between mid-1984 and the end of 1986 there was a widening divergence between the rapidly rising consumption side of the economy and the depressed manufacturing sector. Now there is reason to believe that manufacturing has begun to turn around, although the evidence is still tentative and spotty—witness January's plunge in new factory orders for durable goods.

Manufacturing production rose by six-tenths of one percent in January, the fourth monthly increase in a row, notwithstanding slower production in the key automobile industry. Other favorable statistics support the improved manufacturing environment, such as the drop in business inventories in December of 0.5 percent (the largest decline since March 1983). As a result, factories have added 81,000 new jobs since last September in spite of hefty layoffs in some industries. What is more, most of these jobs are in production rather than in the administrative side of industry.

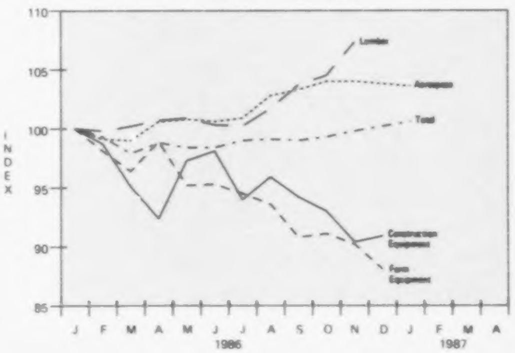
Manufacturers
Hanover
Economics
Department
17/270

Factory capacity utilization is also rising. Manufacturing operating rates averaged 80.3 percent in January, the highest level in a year. This rise was accompanied by growth in the factory workweek to almost 41 hours. Another encouraging note is that the increase in manufacturing production was accomplished with relatively small gains in the number of hours worked, suggesting that first-quarter 1987 productivity will show substantial improvement. Along with a more realistically valued dollar, this bodes well for U.S. competitiveness over the near term.

. . . But Some Clouds . . .

There are, to be sure, pockets of both strength and weakness in the manufacturing sector (see chart). Several of the high technology industries, particularly those related to defense, continue to be the stars in the industrial firmament. The aerospace industry, for example, has benefited from a combination of growing defense orders and rising civilian demand both in the U.S. and abroad. In the U.S. the deregulation of airlines and rising competition have stimulated these firms to replace obsolete aircraft and expand their fleets. Consequently, industrial production in aerospace jumped a hefty 10½ percent last year. Employment rose 7½ percent in 1986, as jobs were added at the rate of 2,000 per month.

INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIES
(JANUARY 1986=100)



Falling mortgage interest rates have boosted the residential construction industry, the largest single user of lumber, causing a substantial improvement for this industry last year. Output of lumber was up 12½ percent year-over-year as the housing industry enjoyed its best year since 1978. Employment by U.S. producers grew 4½ percent providing 27,000 new jobs in the 12 months through January of this year. Other industries such as furniture and textiles also benefited from the 1.8 million residential units built in 1986.

On the other side of the manufacturing picture are those industries which have remained in deep malaise. The agricultural equipment industry has not recovered from the plagues of global overproduction of food, low prices and the grim financial problems of the U.S. farm sector. This once powerful industry continues to contract and reduce employment. The value of farm machinery shipments fell by about seven percent in real terms in 1986–46 percent below the level of 1981; capacity utilization fell below 50 percent, continuing a long-term downward trend. At the end of 1986

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industrial production in this sector was ten percent below the same period in 1985 and employment had plunged by almost 24 percent, subtracting 11,000 jobs from an already weakened industry. The prospects for 1987 are for a small improvement at best, as the agricultural sector continues in the doldrums.

The construction machinery industry is in much the same condition. Racked by the heavy burden of the earlier strength in the dollar and high manufacturing costs in the early years of this decade, the U.S. construction machinery industry lost market share to foreign competitors both in the U.S. and abroad. The subsequent drop in the value of the dollar against some currencies has not yet been reflected in significant improvement for this industry. In spite of widespread retrenchment and lower labor and materials costs, U.S.-built construction machinery remains relatively expensive. What is more, the major users of heavy construction equipment–the commercial and industrial construction industries and mining–are also in the doldrums, limiting domestic sales opportunities. Last year production

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/87)	156,698	+ 1,194	− 10,733
New York City (2/18/87)	36,774	+ 266	− 331
Commercial Paper (2/18/87)	336,632	− 375	+ 37,774

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/87)	283,138	− 786	+23,953
New York City (2/18/87)	65,889	− 114	+ 7,907

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/87)	788,026	+ 132	+67,111
New York City (2/18/87)	175,515	+ 1,362	+16,267

Financial Markets

	Friday 2/27/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.57%	+ .02	− 1.68
180-Day Bills †	5.65	–0–	− 1.70
Longest Bills †	5.85	+ .02	− 1.57
Recent Issues:			
$6\frac{1}{4}$s 2/28/89 (When Issued)	6.30	NA	
$6\frac{5}{8}$s 12/31/90	6.61	− .05	
$7\frac{1}{4}$s 11/15/96	7.16	− .04	
$7\frac{1}{2}$s 11/15/16	7.47	− .07	
Municipals:			
Bond Buyer–20 Bond Index* (2/26/87)	6.59%	− .03	− .39
Blue List Total ($ Million)	$2,016	− $ 44	+$ 686
30-Day Visible Supply ($ Million)	$4,330	+ $949	+$2,856
Total	$6,346	+ $905	+$3,542
Corporates:			
Moody's Aa Composite (2/26/87)	8.85%	− .03	− .81
30-Day Visible Supply ($ Million)	$2,959	− $286	+$1,485
Stocks:			
Dow-Jones Averages:			
Industrials	2,223.99	− 11.25	+514.93
Transportation	935.68	− 15.87	+143.42
Utilities	218.97	− 3.05	+ 33.14
65 Stocks	849.22	− 8.20	+169.61
N.Y.S.E. Composite Index	162.01	− .81	+ 31.27
N.Y.S.E. Avg. Daily Vol. for Week (000's)	162,996	− 27,832	− 2,156

*46% Taxable equivalent 12.20%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/27/87	Week Ago
Overnight	5.81%	5.75%
1 month	6.31	6.19
3 month	6.31	6.31
6 month	6.31	6.31
1 year	6.44	6.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES New York Opening (2/27/87)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7504	1.3326
France	.1645	6.0790
Germany	.5481	1.8245
Italy	.0007701	1298.50
Japan	.006527	153.20
Mexico	.0009575	1044.40
Switzerland	.6506	1.5370
U.K.	1.5454	.6471

MH TRADE-WEIGHTED DOLLAR* (2/27/87)	Change Since Week Ago	Change Since 2/27/85
	+0.7%	−5.0%

*Adjusted for Inflation

in this industry plummeted over 11 percent, leading to a drop in employment of 18 percent.

. . . Will Remain

It is clear that improved prospects for the manufacturing sector have not reached all industries. Although heavy industry will continue to play an important role in the U.S. industrial sector, this role will diminish as an engine of growth and provider of employment. Not only will the service sector continue to grow in importance, but U.S. industrial growth will trend toward the production of higher technology, high unit value products and toward products where the U.S. has a clear and decisive competitive advantage. For the foreseeable future, in spite of strong efforts toward lower labor costs and improved productivity, labor-intensive industries requiring middling levels of technological skills will likely continue to go abroad. Technological innovation in the manufacturing process moves rapidly from the innovating country to other countries where such factors as exchange and wage rates many times provide a competitive edge. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/25/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	201.093	− 1.342	+18.965
Loans to Depository Inst.	.614	− .131	− .424
Float	.511	− .320	− .648
Total Reserve Bank Credit	219.024	− 2.955	+20.183
Treasury Deposits with Federal Reserve Banks	4.208	− .063	− 2.714
Currency in Circulation	206.490	− .519	+15.296
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	168.348	− .366	+38.245
Member Bank Reserves:	2/25/87		
Total Reserves Held	55.097	− 1.145	+ 9.626
Excess (Deficiency)	1.025	− .472	+ .017
Net Free Reserves	.644	− .693	+ .230
		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (2/16/87)	736.7	+ 16.1‡	+ 17.2‡
M2 (January '87)	2,820.1	+ 8.7	+ 9.5
M3 (January '87)	3,513.6	+ 8.2	+ 8.9
Domestic Nonfinancial Debt (3rd Q'86)	7,410.3	+ 11.4	+ 13.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/27/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.46%	5.44%	5.58%
* Federal Agencies	5.70	5.67	5.70
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.29	6.29	6.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.15	6.15	6.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.95%	Mar.	6.04%
15- 29 days	6.00	Apr.	6.03
30- 59 days	6.08	May	6.03
60- 89 days	6.05	Jun.	5.96
90-179 days	6.00	Jul.	5.96
180-239 days	5.95	Aug.	5.93
240-270 days	5.95		

‡Industrial Paper—Prime			
30- 89 days	6.10%	†Federal Funds	
90-120 days	6.05	Effective Rate	6.00%

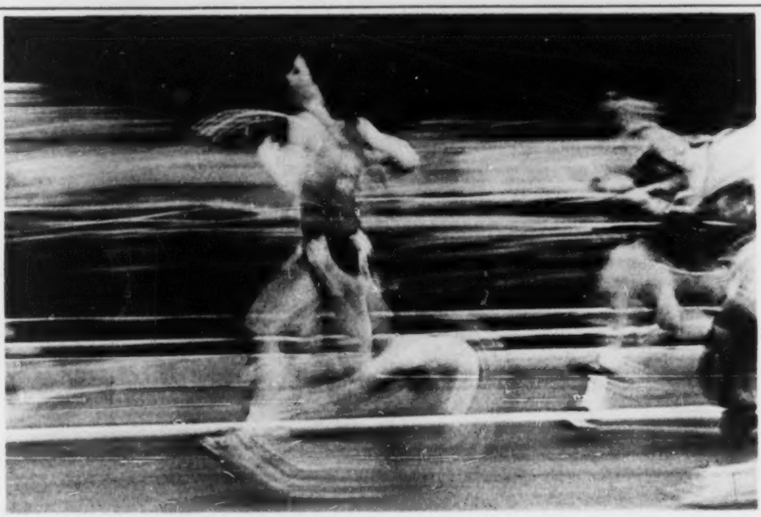
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86	$ 4,261r	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86	$ 3,698r	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86	1.3r	2.8	2.1
Change in Consumer Prices*	Jan '87n	8.4% (1)	2.4%	3.6%
Change in Producer Prices*	Jan '87	7.2%	− 1.2%	− 8.4%
Civilian Employment (Thousands of Persons)†	Jan '87	111,011	110,637	108,892
Unemployment as % of Civilian Labor Force†	Jan '87	6.7%	6.7%	6.8%
Personal Income*	Jan '87n	$ 3,548	$ 3,547r	$ 3,417
Leading Indicators Composite Index (1967=100)†	Dec '86	186.1	182.2	173.6
Industrial Production Index (1977=100) †	Jan '87	126.9	126.4	126.2
Net Change in Consumer Installment Credit †	Dec '86	$ 0.11	$ 3.28	$ 6.48
U.S. Merchandise Trade Balance	Jan '87n	−$ 14.78	−$ 12.73r	−$ 14.42
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Jan '87n	1,806	1,808r	2,004
New Construction Expenditures*	Dec '86	$ 376.0	$ 377.9	$ 365.5
Total Business Inventories †	Dec '86	$ 587.2	$ 590.1	$ 583.2
Total Business Sales †	Dec '86	$ 448.3	$ 435.9	$ 431.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.



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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 6 Monday, March 16, 1987

Analysis of Business Trends Plus Selected Financial Indicators

OPEC's Price Objectives . . .

The arrival of spring in the Northern Hemisphere this week may bring not only milder weather but also a severe test of the ability of the Organization of Petroleum Exporting Countries (OPEC) to enforce their desired oil price of $18 per barrel. Collective discipline will be required because demand for oil traditionally slackens in late March and early April after the winter heating season ends but before the prime summer drive time gets underway.

Last December, the OPEC members decided to reverse the declining trend in oil prices by setting a production ceiling of 15.8 million barrels a day, with the intent of restoring oil prices targeted at $18 a barrel. The big question now is whether OPEC can make its members stick to these new terms. In the recent past, OPEC has shown a poor track record for coordination and cooperation, and its members have repeatedly undercut each other on prices and production quotas. Moreover, downward pressure is mounting because buyers are resisting oil purchases at the fixed prices dictated by OPEC.

Manufacturers Hanover Economics Department 17/270

Meanwhile, last year's plunge in oil prices and the slowdown of crude oil exploration and production in the U.S. caused a surge of 23 percent in imports of crude oil and petroleum products in 1986. This has raised fears that once again we are becoming dependent on foreign oil and may be vulnerable to future energy shocks. At the same time, concern is growing that lower oil prices and abundant supplies are tempting Americans to return to previous careless habits and reverse the progress in energy conservation achieved since OPEC first boosted prices in 1973. As a result, several studies have appeared which suggest that the power to control oil markets may yet revert back to OPEC, creating the possibility of an oil shock in the 1990s as great—or greater—as those in the 1970s.

. . . May Not Be Met . . .

However, the U.S. will be better able to weather an oil shock the next time than it was in the 1970s. The structural changes that accompanied the oil crises of 1973 and 1979, have been significant. Over the past dozen years, Americans have been adjusting to the reality of expensive oil—a process that has been very successful. Conservation and the use of alternative energy sources have reduced petroleum's share of total U.S. energy consumption to 43.2 percent last year, down from 48.6 percent in 1978.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled Per Auto	Average Number of Gallons Consumed per Auto	Average Miles Traveled Per Gallon
1970	9,978	735	13.6
1971	10,121	746	13.6
1972	10,184	755	13.5
1973	9,992	763	13.1
1974	9,448	704	13.4
1975	9,634	712	13.5
1976	9,763	711	13.7
1977	9,839	706	13.9
1978	10,046	715	14.1
1979	9,485	664	14.3
1980	9,135	603	15.2
1981	9,002	579	15.5
1982	9,533	587	16.3
1983	9,654	578	16.7
1984	9,787	553	17.7
1985	9,827	549	17.9
1986(e)	10,071	550	18.3

(e) — estimate

Source: Department of Transportation; MH

American motorists have made major strides in energy conservation. The principal reason has been the dramatic improvement in the fuel efficiency of the nation's automobile fleet. According to the Department of Transportation, both domestic and foreign automobiles produced in 1986 averaged almost 10.5 miles more per gallon than their predecessors of a decade earlier. Not surprising, the sharp rebound in new car sales of the past few years has helped accelerate the rise in average fuel efficiency of all cars on the road (see table). This is important because U.S. gasoline consumption—the world's largest—accounts for 43 percent of the nation's total petroleum usage. While the number of cars now in existence has increased 20 percent since 1976, total U.S. consumption of gasoline is about the same today as it was a decade earlier.

With gasoline prices averaging less than 92 cents a gallon in 1986—their lowest level in eight years—tanking up at the pump last year

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left American motorists with a sense of well being not felt in more than a decade. Not surprising, they headed for the highways more than they did at any time since the early 1970s. Americans drove 2½ percent more miles last year, on average, than they did in 1985, but because of increased fuel efficiency, this increase translated into only a negligible rise in gasoline demand.

Lower prices at the pump helped renew car buyers' interest in larger cars. The market share of intermediate and larger cars rose about one percentage point in 1986; since 1981, when gasoline prices peaked, larger cars have gained more than five percentage points in market share to reach nearly 54 percent of total domestic car sales. However, since today's large cars get better mileage than their predecessors, this rise did not inhibit the overall increase in fuel efficiency of the fleet.

. . . Because of Conservation

Most of the energy conservation measures adopted in the last dozen years are fully integrated into today's economic base and will remain an important part of the energy picture—even if oil prices should fall again. Thanks to smaller, more fuel-efficient

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/87)	153,488	+ 1,963	− 7,639
New York City (3/4/87)	36,388	− 53	− 390
Commercial Paper (3/4/87)	336,024	− 13	+ 38,608

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/87)	281,230	− 897	+20,726
New York City (3/4/87)	65,631	− 581	+ 6,680

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/87)	785,156	− 3,573	+59,773
New York City (3/4/87)	174,103	− 1,156	+11,096

Financial Markets

	Friday 3/13/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.75%	− .01	− .98
180-Day Bills†	5.83	− .04	− 1.02
Longest Bills†	5.98	—0—	− .97
Recent Issues:			
6¼s 2/28/89	6.35	− .05	
6⅝s 12/31/90	6.66	− .04	
7¼s 11/15/96	7.17	− .04	
7½s 11/15/16	7.49	− .05	
Municipals:			
Bond Buyer—20 Bond Index* (3/12/87)	6.61%	+ .07	− .27
Blue List Total ($ Million)	$2,538	+ $ 210	+$ 781
30-Day Visible Supply ($ Million)	$4,654	+ $1,725	+$1,635
Total	$7,192	+ $1,935	+$2,416
Corporates:			
Moody's Aa Composite (3/12/87)	8.84%	+ .02	− .64
30-Day Visible Supply ($ Million)	$2,959	− $ 705	−$ 671
Stocks:			
Dow-Jones Averages:			
Industrials	2,258.66	− 21.57	+465.72
Transportation	935.32	− 22.89	+119.08
Utilities	216.55	− 2.53	+ 27.08
65 Stocks	855.54	− 11.94	+149.04
N.Y.S.E. Composite Index	165.31	− 0.14	+ 29.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	170,482	− 7,968	− 6,036

*46% Taxable equivalent 12.24%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/13/87	Week Ago
Overnight	5.94%	5.94%
1 month	6.44	6.31
3 month	6.38	6.31
6 month	6.38	6.31
1 year	6.44	6.38

EURODOLLAR BONDS Average Yield	Friday 3/13/87	Week Ago
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/13/87)	Currency Per U.S. $	Week Ago
Canada	1.3200	1.3325
France	6.1750	6.1130
Germany	1.8545	1.8365
Italy	1317.90	1305.00
Japan	153.08	153.59
Mexico	1089.00	1072.00
Switzerland	1.5550	1.5478
U.K.*	1.5470	1.5845

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/13/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	−8.9%

automobiles, better home insulation and substantial capital investment by businesses in energy-saving structures and equipment, the relationship between energy use and economic growth has changed significantly over the past dozen years. For a half-century prior to the mid-1970s, each one percent rise in GNP output required a one percent increase in energy input. Since then that ratio has changed drastically: Each one percent rise in energy consumption can now support an eight percent rise in the real GNP!

Another way to look at it is that we are using less and less fuel—petroleum, natural gas, coal and others—to produce the same level of output. As evidence, the Department of Energy reports that in the third quarter of last year, only 19,900 BTUs were needed to produce one dollar of real GNP, down from 20,300 BTUs a year ago; in 1973 it took more than 27,000 BTUs. The improvement in energy efficiency is even more pronounced when only petroleum and natural gas usage is considered. Their inputs have dropped from 20,900 BTUs per each real GNP dollar in 1973, to only 13,000 in the third quarter of last year—a 38 percent reduction. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	3/11/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	204.396	+ 1.915	+21.087
Loans to Depository Inst.	.419	− .093	− .335
Float	.488	− .188	− .313
Total Reserve Bank Credit	221.948	+ 1.590	+21.810
Treasury Deposits with Federal Reserve Banks	3.391	+ .063	− .105
Currency in Circulation	207.293	+ 1.004	+14.887
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	167.964	− 2.046	+34.657
	3/11/87		
Member Bank Reserves:			
Total Reserves Held	55.510	+ .367	+ 9.304
Excess (Deficiency)	.851	− .205	− .116
Net Free Reserves	.660	− .015	− .078
		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (3/2/87)	738.0	+ 12.5‡	+ 16.6‡
M2 (February '87)	2,818.6	+ 6.3	+ 9.1
M3 (February '87)	3,514.6	+ 6.5	+ 8.4
Domestic Nonfinancial Debt (3rd Q'86)	7,410.3	+ 11.4	+ 13.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/13/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.64%	5.60%	5.66%
* Federal Agencies	5.78	5.76	5.81
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.41	7.59	7.59
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.12	6.15	6.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.10%	Apr.	6.15%
15- 29 days	6.10	May	6.12
30- 59 days	6.20	Jun.	6.07
60- 89 days	6.13	Jul.	6.05
90-179 days	5.98	Aug.	6.03
180-239 days	5.85	Sep.	6.00
240-270 days	5.85		

‡Industrial Paper—Prime			
30- 89 days	6.21%	†Federal Funds	
90-120 days	6.17	Effective Rate	6.10%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period			Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th	Q'86	$ 4,261	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th	Q'86	$ 3,698	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th	Q'86	1.3	2.8	2.1
Change in Consumer Prices*	Jan	'87	8.4% (1)	2.4%	3.6%
Change in Producer Prices*	Feb	'87n	1.2%	7.2%	− 19.2%
Civilian Employment (Thousands of Persons)†	Feb	'87n	111,382	111,011	108,557
Unemployment as % of Civilian Labor Force†	Feb	'87n	6.7%	6.7%	7.2%
Personal Income*	Jan	'87	$ 3,548	$ 3,547	$ 3,417
Leading Indicators Composite Index (1967=100)†	Jan	'87n	183.8	185.6r	173.4
Industrial Production Index (1977=100) †	Feb	'87n	127.3	126.8r	125.3
Net Change in Consumer Installment Credit †	Jan	'87n	$ 0.54	$ 0.14r	$ 7.65
U.S. Merchandise Trade Balance	Jan	'87	−$ 14.78	−$ 12.73	−$ 14.42
Plant and Equipment Expenditures*	1st	Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Jan	'87	1,806	1,808	2,004
New Construction Expenditures*	Jan	'87n	$ 378.5	$ 374.9r	$ 373.4
Total Business Inventories †	Jan	'87n	$ 592.2	$ 586.6r	$ 585.0
Total Business Sales †	Jan	'87n	$ 448.8	$ 448.8r	$ 432.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

(1) Indicates new series.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 7

Monday, March 30, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Households Switch Credit Sources . . .

Despite the fact that 1987 is now three months old, one uncertainty which continues to cloud this year's economic outlook is the likely spending behavior of the consumer. For although a robust level of consumer spending has kept the current business expansion rolling along so far, the conventional wisdom states that the combination of subdued employment growth, paltry savings and hefty debt burdens will result in a diminished household contribution to growth from now on. Indeed, some analysts are citing as evidence of this anticipated trend the meager monthly increases in consumer installment debt outstanding since November 1986.

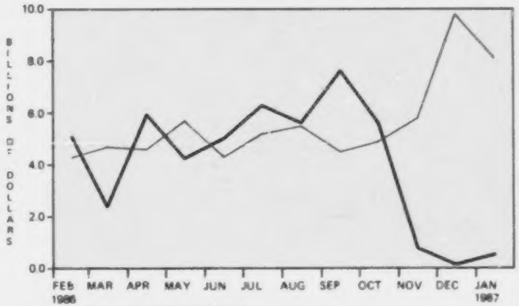
According to this view, with people spending less, they are borrowing less as well. However, while people's willingness to take on new debt may have been indicative of household confidence and spending behavior in the past, in today's tax reform environment it has probably turned into just another misleading economic indicator. The recent flattening of installment debt growth has few implications for the economy's overall health, signifying instead the fact that consumers are beginning to substitute alternative, tax-deductible sources of credit for increasingly non-deductible installment debt, and the likelihood that automobile leasing is fast becoming the preferred form of household auto acquisition.

To be sure, the growth of outstanding installment debt, nearly $2 of every $3 of which consists of automobile loans and so-called revolving credit, or credit card balances, slowed abruptly toward the end of last year. Household installment debt totaled nearly $600 billion at the start of last month. Putting this number in perspective, it represents a sum about 50 percent larger than the widely commented upon foreign debt of all of Latin America. However, consumers acquired an average of only $500 million more of new debt than they paid off between November 1986 and the end of January 1987. Even more interesting is the fact that it pales by comparison with the nearly $5½ billion average monthly rise in outstandings during the first ten months of last year.

Manufacturers Hanover Economics Department 17/270

Credit card debt actually fell by $400 million in January. This was the largest monthly drop in plastic credit since June 1980, when consumer credit controls were in effect. But signs of an equally sharp drop in household spending are hard to come by, since retail sales advanced briskly in February, while new automobile sales ran at the same annual selling rate during the November 1986-January 1987 period as they did during the same months one year earlier.

REAL ESTATE LOANS (LIGHT LINE) VS. CONSUMER INSTALLMENT CREDIT (HEAVY LINE) <DOLLAR CHANGE FROM PREVIOUS MONTH>



Source: Federal Reserve Board

. . . In Response To Tax Code Changes . . .

The unusual divergence between spending and installment debt can largely be traced to two developments. First, changes in the Federal tax code which will gradually phase out the deductibility of interest payments for virtually everything but home mortgages and, second, as a corollary, the widespread marketing and popularity of home equity loans. Since mortgage interest payments remain fully tax deductible on principal amounts not exceeding the initial purchase price of the home plus capital improvements, homeowning consumers now have a financial incentive to switch credit sources, borrowing against their palaces to finance either big– (or little–) ticket purchases and/or pay off existing installment debt outstanding.

This seems to be precisely what is going on. As shown in the chart, while consumer credit growth has slowed dramatically, total bank loans secured by real estate, the broad loan group into which home equity lending falls, has soared. In December and January alone, the average monthly increase

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in real estate-backed loans outstanding reached just about $9 billion, far higher than the preceding 11-month average of less than $5 billion.

Unfortunately, the available statistics fail to distinguish between new mortgage lending and home equity loans, making it impossible to judge precisely to what extent home equity loans and credit lines are substituting for the more traditional type of consumer credit and, in December at least, what proportion of the increase in real estate lending was for yearend, tax-related purposes. For example, an investor might have hastened to complete the purchase of an income-producing, rental property in 1986 in order to take advantage of the more generous depreciation schedules contained in the old tax codes. However, despite these caveats, it appears a good bet that the divergence between trends in real estate-backed lending and outstanding consumer credit is more than a mere one- or two-month coincidence, and could persist.

. . . And Installment Debt Growth Flattens

Nor is the shift to home equity lending the only factor dampening consumer credit growth, thus distorting the meaning of this

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/11/87)	158,112	– 149	– 6,179
New York City (3/18/87)	36.388	– 90	+ 440
Commercial Paper (3/18/87)	339,038	+ 35	+ 37,999

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/11/87)	280,556	– 492	+19,318
New York City (3/18/87)	64,737	– 390	+ 6,341

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/11/87)	783,712	– 2,482	+48,378
New York City (3/18/87)	174,021	+ 934	+10,032

Financial Markets

	Friday 3/27/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.78%	+ .12	– .75
180-Day Bills†	5.89	+ .13	– .72
Longest Bills†	6.09	+ .17	– .70
Recent Issues:			
$6\frac{3}{8}$s 3/31/89 (When Issued)	6.46	NA	
$6\frac{3}{4}$s 3/31/91 (When Issued)	6.80	NA	
$7\frac{1}{4}$s 11/15/96	7.31	+ .12	
$7\frac{1}{2}$s 11/15/16	7.64	+ .12	
Municipals:			
Bond Buyer–20 Bond Index* (3/26/87)	6.79%	+ .11	– .42
Blue List Total ($ Million)	$2,742	+ $174	+$1,024
30-Day Visible Supply ($ Million)	$3,966	– $848	+$ 357
Total	$6,708	– $674	+$1,381
Corporates:			
Moody's Aa Composite (3/26/87)	8.83%	+ .01	– .63
30-Day Visible Supply ($ Million)	$2,845	+ $ 16	–$2,225
Stocks:			
Dow-Jones Averages:			
Industrials	2,335.80	+ 2.28	+514.08
Transportation	935.44	– 13.45	+107.05
Utilities	217.07	– 3.05	+ 25.54
65 Stocks	872.81	– 4.63	+155.68
N.Y.S.E. Composite Index	168.37	– 1.00	+ 30.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	170,693	+ 1,203	+14,683

*46% Taxable equivalent 12.57%.

† Bond equivalent.

International Rates

	Friday 3/27/87	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	6.00%	5.88%
1 month	6.38	6.31
3 month	6.38	6.31
6 month	6.38	6.31
1 year	6.50	6.44
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/27/87)	Currency Per U.S. $	Week Ago
Canada	1.3061	1.3106
France	6.0880	6.0980
Germany	1.8238	1.8313
Italy	1298.75	1303.25
Japan	147.85	151.63
Mexico	1107.60	1091.65
Switzerland	1.5200	1.5343
U.K.*	1.6058	1.5978

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (3/27/87) (Adjusted for Inflation)	+1.2%	–8.4%

former barometer of household sentiment and finances. Another is the increasing popularity of automobile leasing, a trend expected to accelerate under the new tax code. Not only is the deductibility of auto-related interest payments being phased out, but the elimination of the deductibility of state sales taxes has caused a growing number of consumers to switch from auto ownership to auto leasing. In so doing, they avoid the hefty down payment associated with buying most new cars, the tax advantages of which have all but evaporated.

Last year's results are a case in point. According to the National Vehicle Leasing Association, the number of passenger car leases increased an estimated 20-percent-plus last year, and is likely to increase sharply again this year. But whereas the purchase of an automobile on credit boosts auto-related installment debt outstanding, just as the purchase of a home swells the mortgage debt numbers, the leasing of a vehicle does not, just as renting a house has no effect on mortgage debt totals. This, too, will increasingly distort the meaning of consumer installment debt trends, making reading the consumers' tea leaves that much harder. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/25/87	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	203.108	– .447	+20.932
Loans to Depository Inst.	.553	+ .051	– .227
Float	.366	– .012	+ .135
Total Reserve Bank Credit	221.091	– .190	+22.215
Treasury Deposits with Federal Reserve Banks	2.865	– .390	– .745
Currency in Circulation	207.318	– .386	+14.849
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	168.582	– 1.316	+35.275
	3/25/87		
Member Bank Reserves:			
Total Reserves Held	55.339	– .098	+ 9.168
Excess (Deficiency)	.868	– .072	– .058
Net Free Reserves	.603	– .146	– .089

Monetary Aggregates †		% Change Since 3 Months' Ago*	% Change Since Year Ago
M1 (3/16/87)	740.2	+ 11.2‡	+ 16.3‡
M2 (February '87)	2,821.3	+ 6.6	+ 9.3
M3 (February '87)	3,519.5	+ 6.9	+ 8.5
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/27/87	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.61%	5.65%	5.72%
* Federal Agencies	5.84	5.85	5.90
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.96	7.87	7.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.23	6.24	6.30

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.20%	Apr.	6.25%
15- 29 days	6.25	May	6.20
30- 59 days	6.20	Jun.	6.15
60- 89 days	5.80	Jul.	6.12
90-179 days	5.70	Aug.	6.10
180-239 days	5.70	Sep.	6.08
240-270 days	5.70		

‡ Industrial Paper—Prime			
30- 89 days	6.31%	† Federal Funds Effective Rate	6.15%
90-120 days	6.25		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86	$ 4,259r	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86	$ 3,696r	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86	1.1r	2.8	2.1
Change in Consumer Prices*	Feb '87n	4.8% (1)	8.4% (1)	– 3.6%
Change in Producer Prices*	Feb '87	1.2%	7.2%	– 19.2%
Civilian Employment (Thousands of Persons)†	Feb '87	111,382	111,011	108,557
Unemployment as % of Civilian Labor Force†	Feb '87	6.7%	6.7%	7.2%
Personal Income*	Feb '87n	$ 3,581	$ 3,549r	$ 3,435
Leading Indicators Composite Index (1967=100)†	Jan '87	183.8	186.1r	173.4
Industrial Production Index (1977=100) †	Feb '87	127.3	126.8	125.3
Net Change in Consumer Installment Credit †	Jan '87	$ 0.54	$ 0.14	$ 6.32r
U.S. Merchandise Trade Balance	Jan '87	–$ 14.78	–$ 12.73	–$ 14.42
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Feb '87n	1,851	1,804r	1,923
New Construction Expenditures*	Jan '87	$ 378.5	$ 374.9	$ 373.4
Total Business Inventories †	Jan '87	$ 592.2	$ 586.6	$ 585.0
Total Business Sales †	Jan '87	$ 428.8r	$ 448.8	$ 432.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 8

Monday, April 13, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Huge Dollar Outflows To Japan . . .

The continuing massive U.S. trade deficit with the Japanese in spite of the rise in the yen against the dollar brings up the question of how the Japanese will invest their surplus funds. Clearly, this is of major importance for the international financial markets—not to mention those in the U.S. Since early 1985 the yen has appreciated by around 75 percent against the dollar, and other major currencies have also jumped. The German mark, for example, has appreciated over 80 percent against the dollar, while the British pound is up about 55 percent.

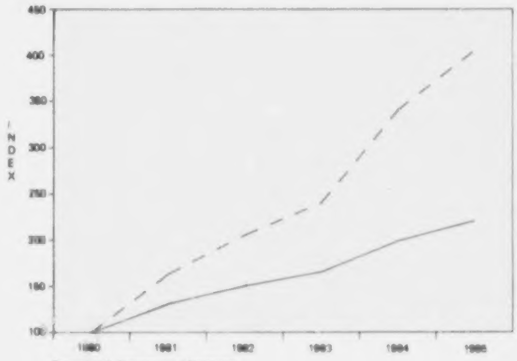
Since the early 1980s, as massive U.S. trade and current account deficits generated huge dollar surpluses abroad, much of it has come back to these shores, resulting in a sharp growth of foreign investment in this country. The already substantial inflow of investment funds has become a veritable flood since early 1982 as the depreciating dollar has made U.S. assets ever cheaper in terms of the world's other major currencies. And hefty U.S. monthly trade deficits for the first two months of 1987 suggest that the same forces are still at work this year as well.

Total foreign investment in the U.S. reached close to $877 billion at the end of 1985, the latest period for which detailed information is available. A further $420 billion is estimated to have been invested in 1986 adding almost half again to total foreign investment in this country. About $500 to $600 billion of the total foreign investment represents the external liabilities of U.S. banks—a volatile factor. But the rest is spread among investments in government securities, corporate stocks and bonds, real estate and direct investment (i.e., over ten percent ownership) in U.S. companies.

. . . Fuel Investments In Financial Markets . . .

Significantly it has been the Japanese in the last few years who have expanded their financial and business interest in the United States most rapidly. Japanese banks have been aggressive in their pursuit of lending opportunities in this country, often at very narrow spreads over their cost of funds. They have also played an important role in financing the spate of mergers and acquisitions, leveraged buyouts and consolidations over the past few years. Japanese firms and individuals have been active traders in the securities markets—both government and corporate—as well. At the end of 1986 the Japanese were estimated to have held over $90 billion in U.S. government and corporate bonds and added an estimated $7 billion to their stock portfolios.

FOREIGN INVESTMENT IN THE U.S. TOTAL (LINE) VS. JAPAN (DOT)
(1980=100)



Source: U.S. Department of Commerce

But Japanese interest in the U.S. is not confined to financial market operations. Virtually no aspect of American enterprise is untouched. Last year Japanese investors bought $6 billion worth of property in the U.S., three times the amount purchased the year before. Much of this was prime urban real estate such as Los Angeles' Arco Plaza and New York's Exxon Building. Office buildings account for about 60 percent of Japanese property holdings in this country, but other types of property including farmland, shopping centers and suburban properties are in their real estate portfolio as well. And the real estate industry is looking forward to further Japanese investments in domestic property markets this year.

Although Japanese investments in U.S. financial markets are far larger than their direct investments, it is the latter that stand out most clearly and capture the attention of the public. Japan still ranks third after the United Kingdom and the Netherlands in

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terms of total direct investments here, but they are closing the gap rapidly. Indeed, in recent years the growth rate of Japanese direct investment in this country has far outstripped total direct investment (see chart on page 1) and is expected to continue to do so again this year.

. . . And Direct Ownership

Total direct investment by the Japanese exceeded $19 billion at the end of 1985, and as much as $10 billion may have been added in 1986. Japanese participation in U.S. industry is widespread; the Japanese own 50 percent or more of over 435 U.S. manufacturing firms spread over a wide range of businesses from the most basic to the most sophisticated. Indeed, the ability of Japanese parent firms to access the latest technological developments through their U.S. companies is becoming a matter of serious concern–witness the recent U.S. government intervention in the proposed Fujitsu acquisition of Fairchild Semiconductor Corporation.

The inroads into the U.S. market by Japanese automobile manufacturers have also gained widespread attention. Not only do the largest Japanese automobile producers such

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (3/25/87)	158,226	– 175	– 5,353
New York City (4/1/87)	35,832	+ 199	+ 789
Commercial Paper (4/1/87)	334,280	– 4,796	+ 33,607

Bank Loans

(Millions of Dollars)

		Commercial and Industrial Loans	
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/87)	280,220	– 971	+19,131
New York City (4/1/87)	63,277	– 1,338	+ 4,302

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/87)	781,893	– 4,965	+48,994
New York City (4/1/87)	175,567	+ 3,512	+15,445

Financial Markets

	Friday 4/10/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.98%	+ .36	– .15
180-Day Bills†	6.21	+ .30	– .07
Longest Bills†	6.52	+ .43	+ .20
Recent Issues:			
$6\frac{3}{8}$s 3/31/89	6.91	+ .35	
$6\frac{3}{4}$s 3/31/91	7.47	+ .46	
$7\frac{1}{2}$s 11/15/96	7.94	+ .37	
$7\frac{1}{2}$s 11/15/16	8.17	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (4/9/87)	7.27%	+ .34	+ .02
Blue List Total ($ Million)	$2,678	– $111	+ $588
30-Day Visible Supply ($ Million)	$3,394	+ $625	– $604
Total	$6,072	+ $514	– $ 16
Corporates:			
Moody's Aa Composite (4/9/87)	8.92%	– .04	– .27
30-Day Visible Supply ($ Million)	$6,123	+ $2,710	+$3,863
Stocks:			
Dow-Jones Averages:			
Industrials	2,338.78	– 51.56	+548.60
Transportation	950.26	– 1.17	+164.20
Utilities	204.34	– 8.98	+ 16.15
65 Stocks	870.13	– 16.77	+171.67
N.Y.S.E. Composite Index	165.72	– 4.48	+ 29.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	178,617	– 13,217	+27,037

*46% Taxable equivalent 13.46%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/10/87	Week Ago
Overnight	6.25%	5.88%
1 month	6.25	6.38
3 month	6.63	6.50
6 month	6.81	6.56
1 year	7.13	6.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/10/87)	Currency Per U.S. $	Week Ago
Canada	1.3024	1.3077
France	6.0280	6.0385
Germany	1.8045	1.8140
Italy	1287.50	1293.00
Japan	141.65	145.75
Mexico	1148.00	1135.00
Switzerland	1.4960	1.5142
U.K.*	1.6275	1.6135

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/10/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.5%	–6.3%

as Toyota and Nissan now have manufacturing plants here, but several of the second-tier producers—Isuzu, Mazda and Subaru, for example, are planning to establish assembly plants in the U.S. over the next few years. By 1991 Mazda expects to build 120,000 vehicles here.

It is clear that not only is the Japanese surge in investment in the U.S. pervasive, but that it represents the perception on the part of Japanese industry that for any company to be taken seriously as a global business entity a strong presence in the U.S. economy is a *sine-qua-non.* However, in spite of the growing presence of foreign investment in this country we have a long way to go before we become an economic fiefdom of Japan. For example, the Japanese hold only 2½ percent of outstanding U.S. Treasury securities. Foreigners as a whole own less than one percent of U.S. real estate. Further, only two to three percent of U.S. industry is foreign-owned and less than five percent of corporate earnings go to foreign owners. Nonetheless, Japan alone is expected by some observers to increase the dollar value of its U.S. holdings by an average of ten percent per year through the end of this century. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	4/8/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	207.609	+ 3.341	+23.262
Loans to Depository Inst.	.591	− .099	− .361
Float	.650	− .438	− .034
Total Reserve Bank Credit	225.401	+ 2.700	+23.975
Treasury Deposits with Federal Reserve Banks	3.923	+ .898	+ .558
Currency in Circulation	208.895	+ 1.500	+14.542
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	178.243	+ 2.145	+36.029
	4/8/87		
Member Bank Reserves:			
Total Reserves Held	56.331	+ .979	+ 9.207
Excess (Deficiency)	.840	− .133	− .218
Net Free Reserves	.447	− .261	+ .123
		% Change Since	
Monetary Aggregates †		3 Months' Ago*	Year Ago
M1 (3/30/87)	738.9	+ 5.9‡	+ 15.8‡
M2 (February '87)	2,821.3	+ 6.6	+ 9.3
M3 (February '87)	3,520.0	+ 7.0	+ 8.5
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/10/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.86%	5.92%	6.06%
* Federal Agencies	6.00	6.02	6.25
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.80	8.33	8.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.45	6.58	6.85

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.23%	Apr.	6.25%
15- 29 days	6.28	May	6.25
30- 59 days	6.33	Jun.	6.25
60- 89 days	6.28	Jul.	6.25
90-179 days	6.23	Aug.	6.25
180-239 days	6.10	Sep.	6.25
240-270 days	6.10		

‡Industrial Paper—Prime			
30- 89 days	6.30%	†Federal Funds	
90-120 days	6.25	Effective Rate	6.30%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86	$ 4,259	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86	$ 3,696	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86	1.1	2.8	2.1
Change in Consumer Prices*	Feb '87	4.8% (1)	8.4% (1)	− 3.6%
Change in Producer Prices*	Mar '87n	4.8%	1.2% r	− 10.8%
Civilian Employment (Thousands of Persons) †	Mar '87n	111,368	111,382	108,807
Unemployment as % of Civilian Labor Force †	Mar '87n	6.6%	6.7%	7.2%
Personal Income*	Feb '87	$ 3,581	$ 3,549	$ 3,435
Leading Indicators Composite Index (1967=100) †	Feb '87n	187.1	185.8r	175.0
Industrial Production Index (1977=100) †	Feb '87	127.3	126.8	125.3
Net Change in Consumer Installment Credit †	Feb '87n	$ 1.77	$ 0.79r	$ 5.08
U.S. Merchandise Trade Balance	Jan '87	−$ 14.78	−$ 12.73	−$ 14.42
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Feb '87	1,851	1,804	1,923
New Construction Expenditures*	Feb '87n	$ 378.4	$ 374.8r	$ 373.9
Total Business Inventories †	Jan '87	$ 592.2	$ 586.6	$ 585.0
Total Business Sales †	Jan '87	$ 428.8	$ 448.8	$ 432.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Analysis of Business Trends Plus Selected Financial Indicators

The Road To More Inflation Is Paved . . .

Most economic indicators are abstract figures in the minds of many Americans. Few, if any, feel personally affected by moderate GNP growth or a rise in durable goods orders. But anyone who buys anything can understand inflation. The evidence is as close as the local supermarket or corner drug store. So it is understandable that recent talk of a return to rising inflation has not only affected the bond market and precious metals–it has also raised fears for everyone carrying a wallet.

Many factors have been advanced in the arguments for expecting that price rises in 1987 will run well above the 1.9 percent average of 1986. First, because falling energy prices almost single-handedly held down inflation last year, the recent rise of oil prices–spot prices for West Texas oil are now 56 percent above their year-ago levels–portends a return to more inflation. Second, the lower exchange rate of the U.S. dollar has begun to translate into higher prices for imported goods. Next is the monetarist argument that the rapid run-up in the money supply in recent years without a corresponding rise in output will also contribute to a revival of inflation. In response to this growing concern about inflation, interest rates for long-term bonds have risen about one percentage point in just a month's time, gold has increased from $404 to over $450 per troy ounce in the same period, while silver is at its highest level since June 1984.

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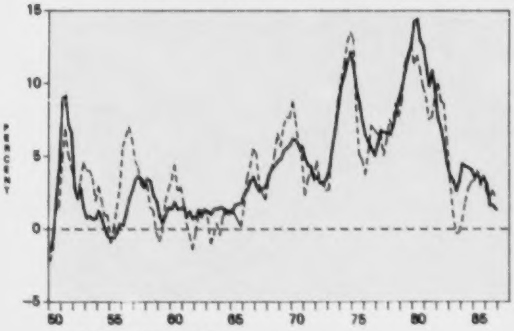
However, these concerns probably exaggerate the true inflation picture. Consumer prices should rise around four percent this year. Granted this is about double last year's average price increase. However, this year's expected rate is very much in line with the annual price rises of the four preceding years, 1982 through 1985, and the slowdown in inflation of the past few years can be traced to two components: energy and food prices. How these two normally volatile items–influenced by such erratic factors as the weather and OPEC–affect the overall CPI can be easily illustrated. From 1983 to 1986, the total CPI changes varied from a low of 1.9 percent to a high of 4.3 percent. Excluding food and energy, consumer prices registered increases in the slightly higher, but narrower range of 3.9 percent to 4.9 percent. Although energy and food prices have begun to post increases, sluggish world economic growth and an oversupply of both oil and agricultural products should keep prices from climbing much further this year.

CONSUMER PRICE INFLATION (LINE) VS.
UNIT LABOR COSTS – NONFARM BUSINESS (DOT)
(PERCENT CHANGE FROM A YEAR AGO)



Source: Bureau of Labor Statistics

. . . With A Weaker Dollar, Higher Wages . . .

What should exert some upward pressure on inflation is the continued fall of the dollar on the foreign exchange markets. By itself, the weaker dollar is a small factor, since imports account for only about 14 percent of GNP, and many foreign producers have apparently sacrificed some of their profit margins by not raising prices as much as the comparable rise in their currencies. The problem is that these increases in imported goods' prices have opened the way for domestic producers also to boost their prices rather than to enlarge their market share. For example, while the yen's rapid appreciation has forced Japanese car producers to raise prices by about 20 percent since last year, Detroit automakers also increased prices by nearly ten percent, on average, and even more for certain models.

Added push may come from rising U.S. wages and unit labor costs. Unit labor costs and inflation move in tandem (see chart) and

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understandably so, since the cost of labor input is the chief determinant of most products' prices. While wage growth has slowed during the 1980s compared with the late 1970s, this can be traced mainly to the manufacturing sector. Services-producing industries posted higher wage gains than did manufacturing in the first half of this decade. And since our economy has become increasingly service-dominated, these large gains exerted more and more inflationary pressure because they were not offset by greater productivity.

In 1986, wages in the manufacturing and services sectors rose by similar rates of 3.3 percent and 3.2 percent, respectively. However, in factories this pay raise was accompanied by a 2.7 percent gain in productivity, so their unit labor costs rose only 0.6 percent. Service industries, on the other hand, seem to have registered no gains in productivity, and the entire 3.2 percent was added to unit labor costs. Although it should be noted that productivity in the service sector is harder to measure than in manufacturing, this wage-push factor is a major reason why service prices rose 5.0 percent in 1986 vs. 1.3 percent for goods excluding energy.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/87)	158,548	+ 992	− 2,221
New York City (4/15/87)	36,172	− 2	+ 1,338
Commercial Paper (4/15/87)	335,388	− 203	+ 36,038

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/87)	278,665	− 1,095	+17,606
New York City (4/15/87)	62,558	− 17	+ 3,517

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/87)	785,836	− 4,646	+55,778
New York City (4/15/87)	176,877	+ 3,169	+16,476

Financial Markets

	Friday 4/24/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.89%	+ .17	− .40
180-Day Bills†	6.24	+ .14	− .22
Longest Bills†	6.76	+ .37	+ .15
Recent Issues:			
7 1/8S 4/31/89 (When Issued)	7.43	NA	
6 3/4S 3/31/91	7.90	+ .48	
7 1/2S 11/15/96	8.43	+ .41	
7 1/2S 11/15/16	8.67	+ .44	
Municipals:			
Bond Buyer—20 Bond Index* (4/23/87)	7.82%	− .08	+ .60
Blue List Total ($ Million)	$1,831	− $472	−$ 137
30-Day Visible Supply ($ Million)	$3,379	+ $ 18	−$2,311
Total	$5,210	− $454	−$2,448
Corporates:			
Moody's Aa Composite (4/23/87)	9.27%	+ .09	− .06
30-Day Visible Supply ($ Million)	$6,009	− $679	+$3,311
Stocks:			
Dow-Jones Averages:			
Industrials	2,235.37	− 40.62	+399.80
Transportation	913.47	− 10.62	+102.50
Utilities	199.33	− 4.78	+ 12.63
65 Stocks	835.17	− 14.35	+121.33
N.Y.S.E. Composite Index	159.37	− 3.22	+ 19.86
N.Y.S.E. Avg. Daily Vol. for Week (000's)	173,993	− 34,830	+26,619

*46% Taxable equivalent 14.48%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/24/87	Week Ago
Overnight	6.13%	6.19%
1 month	6.63	6.56
3 month	6.94	6.69
6 month	7.19	6.81
1 year	7.69	7.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.36%	8.31%
Long Term (10 yrs.)	9.03	8.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/24/87)	Currency Per U.S. $	Week Ago
Canada	1.3310	1.3195
France	5.9790	6.0260
Germany	1.7935	1.8105
Italy	1280.50	1291.00
Japan	139.75	142.85
Mexico	1179.00	1168.00
Switzerland	1.4635	1.4925
U.K.*	1.6510	1.6305

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/24/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	−0.3%	−5.9%

. . . And An Uncertain Fed Reaction

How the Federal Reserve will react if the rate of consumer price inflation remains above six percent is less certain. On the one hand, the Fed may tolerate higher inflation as the price to be paid for better economic growth both here and abroad. On the other, the central bank, being the bastion of inflation-fighting and looking to support the dollar, may choose to move in the direction of higher interest rates in order to hold the lid on prices, but at the cost of slowing down this year's already mediocre economic growth.

And for everyone else carrying a wallet, the relation between the reported increase in the consumer price index and people's perception of the pace of price changes is sometimes spurious. With last Friday's release of the March CPI, prices at the consumer level now stands 5.3 percent above their March 1985 levels. But as has been pointed out before (Financial Digest—November 10, 1986), what consumers actually consider to be inflation are the rises in prices of items they buy frequently. As such, these price changes, now measured monthly by the Manufacturers Hanover Nuisance Price Index, are over 12 percent higher than they were in March 1985. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 4/22/87	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	212.588	+ 2.982	+25.425
Loans to Depository Inst.	1.219	+ .526	+ .227
Float	1.492	+ 1.288	+ 1.176
Total Reserve Bank Credit	232.022	+ 4.822	+27.735
Treasury Deposits with Federal Reserve Banks	4.758	+ .943	+ 2.537
Currency in Circulation	210.299	+ .169	+15.935
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	175.355	− 3.111	+35.542
Member Bank Reserves:	4/22/87		
Total Reserves Held	58.913	+ 2.666	+10.375
Excess (Deficiency)	.928	+ .229	+ .052
Net Free Reserves	.239	− .067	− .447
Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (4/13/87)	742.1	+ 0.6‡	+ 15.4‡
M2 (March '87)	2,825.6	+ 3.7	+ 8.7
M3 (March '87)	3,525.3	+ 4.2	+ 8.0
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/24/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.70%	6.02%	6.39%
* Federal Agencies	6.05	6.22	6.50
* Municipal Notes—High Grade (46% Taxable Equivalent)	9.72	9.72	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.50	7.00	7.30

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.25%	May	6.50%
15- 29 days	6.35	Jun.	6.60
30- 59 days	6.40	Jul.	6.80
60- 89 days	6.43	Aug.	6.85
90-179 days	6.41	Sep.	6.85
180-239 days	6.30	Oct.	6.85
240-270 days	6.30		

‡Industrial Paper—Prime			
30- 89 days	6.43%	†Federal Funds	
90-120 days	6.50	Effective Rate	6.30%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87n	$ 4,339	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87n	$ 3,735	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87n	4.3	1.1	3.8
Change in Consumer Prices*	Mar '87n	4.8% (1)	8.4% (1)	− 4.8%
Change in Producer Prices*	Mar '87	4.8%	1.2%	− 10.8%
Civilian Employment (Thousands of Persons)†	Mar '87	111,368	111,382	108,807
Unemployment as % of Civilian Labor Force†	Mar '87	6.6%	6.7%	7.2%
Personal Income*	Mar '87n	$ 3,604	$ 3,599r	$ 3,445
Leading Indicators Composite Index (1967=100)†	Feb '87	187.1	185.8	175.0
Industrial Production Index (1977=100) †	Mar '87n	126.7	127.1r	123.6
Net Change in Consumer Installment Credit †	Feb '87	$ 1.77	$ 0.79	$ 5.08
U.S. Merchandise Trade Balance	Feb '87n	−$ 15.07	−$ 12.27r	−$ 11.37
Plant and Equipment Expenditures*	2nd Q'87n	$396.22(a)	$384.02(a) r	$375.92
Private Housing Starts (Thousands of Units)*	Mar '87n	1,774	1,833r	1,887
New Construction Expenditures*	Feb '87	$ 378.4	$ 374.8	$ 373.9
Total Business Inventories †	Feb '87n	$ 660.2	$ 659.0r	$ 651.9r
Total Business Sales †	Feb '87n	$ 443.8	$ 425.1r	$ 419.6r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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The Manufacturers Hanover
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This year, defending champion Bob Tway and other top pros from the PGA Tour will compete for $600,000 in prize money.

Tickets are on sale at all the participating hospitals through June 5, thereafter at the gate. Use your Mastercard or Visa Card, by calling (212) 808-8519, Monday through Friday, 9 a.m.-5 p.m.

Spectators are urged to arrive early and be among the first 1500 each day to receive a free visor at the gate. **Make it a point to stop by the Expo '87 tent behind the 18th green.**

Benefiting Hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General, Peekskill and Putnam Hospital Center.

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Financial
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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 10

Monday, May 11, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Trade Measured In Dollars . . .

Recent trends in the U.S. trade deficit (both globally and vis-a-vis Germany and Japan in particular) have caused the dollar to come under significant pressure in the foreign exchange markets. So far this year the dollar has fallen by about eight percent against the German mark and 14 percent against the yen. In nominal terms the U.S. trade deficit has widened by $3 billion (GNP basis) in the first quarter of this year compared with last year's fourth quarter.

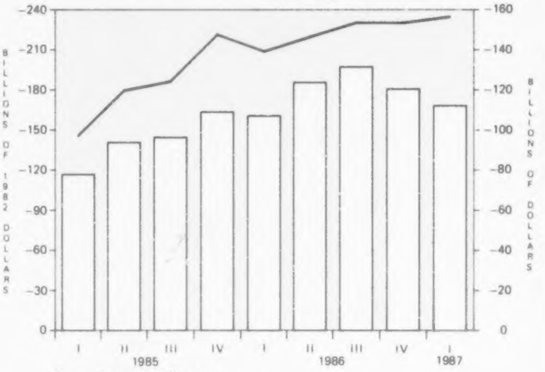
Coming more than two years after the dollar peaked in the foreign exchange markets, this appears to be cause for concern. The trade deficit, on the surface, remains a major drag upon economic activity. However, closer scrutiny of the numbers reveals some reasons for cautious optimism. First of all, January's deficit was revised to $12.3 billion from the originally estimated $14.8 billion, the smallest such deficit since March of 1986. Second, February saw a substantial jump in exports, which rose 7.2 percent in value from the year-ago level and were up 13.6 percent from January's total, suggesting that the dollar's decline may be boosting U.S. competitiveness. Finally, while the deficit remains high on a value basis, on a volume basis there is evidence that suggests an improving trend has begun (see chart). During the fourth quarter of 1986 and the first quarter of 1987, for instance, the external sector actually contributed to the expansion of the economy, as real GNP rose at a faster clip than domestic demand. In previous quarters just the reverse was true as strong domestic demand prompted a surge in both import volume and value.

When measured in dollars the improvement in the U.S. trade account is not apparent—because import costs have escalated as a result of the dollar's fall against such major currencies as the Japanese yen and German mark. Thus, Germany reported a 0.6 percent fall in Deutschemark-denominated exports to the U.S. in 1986 whereas the U.S. reported an 18.4 percent rise in the dollar value of imports from Germany.

. . . Masks Global Movements Of Goods . . .

This same thing is true for Germany and Japan. Their trade surpluses are contracting in real terms, although it is not yet evident in nominal terms because of the translation impact of a falling dollar. Consequently the rise of the yen and the mark has increased the value of exports from Japan and Germany when measured in dollar terms, even though in local currency and volume terms, exports have declined because of the steep depreciation of the dollar. Japan is especially vulnerable in this respect because it is much more dependent upon the U.S. market than Germany. Whereas the U.S. accounts for only 10.5 percent of Germany's exports, its share of Japan's exports is 35 percent.

U.S. MERCHANDISE TRADE DEFICIT (GNP BASIS): REAL (BAR) VS. NOMINAL (LINE)



Source: Department of Commerce

Affected by the cost of producing in yen terms and selling in terms of a depreciated dollar, the volume of Japan's exports has begun to decline. The first quarter of 1987, for instance, marked the fifth straight quarter in which real exports were below the levels of the same quarter in the previous year. The declines, however, have been masked by the growing strength of the yen. As a result, although exports fell 0.5 percent in real terms between the first quarter of 1985, when the dollar peaked, and the first quarter of 1987, in terms of dollars, a 33.4 percent gain was recorded. German exports have similarly been hindered by the strength of the mark, with export volumes rising a

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mere one percent in real terms during the first quarter over the similar 1986 period.

The decline of the dollar has not only distorted the trend in these countries' exports, but in their imports as well. This is because the dollar is the transaction currency in international trade with prices and contracts of many commodities such as oil denominated in dollars. Consequently, the decline in the dollar and still weak world commodity prices have sharply enhanced Germany's and Japan's terms of trade as reflected by the plunge in import prices witnessed by both countries. In Germany, for instance, import prices fell 18.9 percent last year while in Japan they fell by 34.7 percent. As a result, both Germany and Japan are able to import more in volume terms, but it is costing them less.

In Japan, the volume of imports rose 8.1 percent between the first quarter of 1986 and the first quarter of 1987, yet when measured in yen and dollars, imports declined by 22.1 percent and 3.6 percent, respectively. Similarly, during the same period the Germans reported a five percent increase in the volume of imports but a eight percent fall in imports when measured in marks.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/87)	157,906	+ 644	+ 1,063
New York City (4/29/87)	35,955	+ 222	+ 1,075
Commercial Paper (4/29/87)	350,670	+ 1,946	+ 50,361

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/87)	280,407	– 305	+21,629
New York City (4/29/87)	61,118	– 1,174	+ 3,130

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/87)	797,145	+ 2,152	+62,517
New York City (4/29/87)	178,440	– 1,604	+16,894

Financial Markets

	Friday 5/8/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.67%	– .06	– .55
180-Day Bills†	6.09	– .12	– .24
Longest Bills†	6.70	– .01	+ .24
Recent Issues:			
7^{1}/8s 4/30/89	7.52	+ .10	
6^{3}/4s 3/31/91	7.95	+ .08	
8^{1}/2s 5/15/97 (When Issued)	8.43	NA	
8^{3}/4s 5/15/17 (When Issued)	8.61	NA	
Municipals:			
Bond Buyer–20 Bond Index* (5/7/87)	7.86%	+ .01	+ .50
Blue List Total ($ Million)	$1,648	– $ 51	–$ 614
30-Day Visible Supply ($ Million)	$3,591	+ $ 63	–$1,332
Total	$5,239	+ $ 12	–$1,946
Corporates:			
Moody's Aa Composite (5/7/87)	9.45%	+ .07	+ .14
30-Day Visible Supply ($ Million)	$3,673	– $2,317	+$ 53
Stocks:			
Dow-Jones Averages:			
Industrials	2,322.30	+ 41.90	+532.87
Transportation	957.38	+ 40.93	+169.35
Utilities	205.49	+ 3.39	+ 22.58
65 Stocks	868.83	+ 21.32	+173.02
N.Y.S.E. Composite Index	165.49	+ 2.85	+ 28.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	181,477	– 2,433	+56,094

*46% Taxable equivalent 14.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/8/87	Week Ago
Overnight	6.56%	6.38%
1 month	6.81	6.88
3 month	7.06	7.13
6 month	7.31	7.25
1 year	7.75	7.69
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.58%	8.50%
Long Term (10 yrs.)	9.23	9.15

FOREIGN EXCHANGE SPOT RATES New York Opening (5/8/87)	Currency Per U.S. $	Week Ago
Canada	1.3352	1.3360
France	5.9850	5.9650
Germany	1.7895	1.7905
Italy	1297.50	1281.25
Japan	139.65	140.45
Mexico	1213.00	1199.00
Switzerland	1.4720	1.4702
U.K.*	1.6745	1.6660

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/8/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+2.0%	–8.6%

. . . And Is Disturbing The Markets

It would seem that a further erosion in the dollar's value against the major currencies may prove to be self-defeating in rectifying the present trade imbalances between the major countries. The price impact of a falling dollar could continue to mask a decline in import volumes for the U.S., keeping the U.S. trade deficit at a high level while bolstering the surpluses of Japan and Germany by reducing their import costs. In addition, any renewed plunge in the dollar would hinder economic prospects for Japan and Germany by deterring their exports, reducing corporate profits, and hampering industrial output, making those countries less receptive to U.S. exports.

Although there is justification for the dollar to depreciate further against the currencies of some of our major trading partners such as the newly-industrializing countries of Asia, it is apparent that a further sharp fall in the dollar against the major currencies might have dangerous repercussions for the world economy. Such a development would slow growth in Europe and Japan, and boost U.S. interest rates which, in turn, would slow U.S. economic activity, increase unemployment and retard capital investment. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	5/6/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	231.563	+15.531	+40.591
Loans to Depository Inst.	2.021	+ 1.223	+ 1.116
Float	.293	+ .359	− .349
Total Reserve Bank Credit	251.182	+17.342	+42.129
Treasury Deposits with Federal Reserve Banks	22.844	+ 9.532	+15.598
Currency in Circulation	210.458	+ .838	+15.307
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	177.389	+ .845	+31.602
Member Bank Reserves:	5/6/87		
Total Reserves Held	57.617	− 1.304	+ 9.079
Excess (Deficiency)	.979	+ .181	+ .103
Net Borrowed Reserves	.192	+ .301	+ .736
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (4/27/87)	758.0	+ 7.2‡	+ 16.1‡
M2 (March '87)	2,825.7	+ 3.7	+ 8.7
M3 (March '87)	3,524.3	+ 4.1	+ 8.0
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/8/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.48%	5.81%	6.32%
* Federal Agencies	6.29	6.40	6.67
* Municipal Notes—High Grade (46% Taxable Equivalent)	5.25	5.25	5.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.85	7.05	7.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.68%	Jun.	6.70%
15- 29 days	6.73	Jul.	6.80
30- 59 days	6.75	Aug.	6.90
60- 89 days	6.75	Sep.	7.00
90-179 days	6.66	Oct.	7.00
180-239 days	6.50	Nov.	7.00
240-270 days	6.50		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	6.76%	Effective Rate	6.70%
90-120 days	6.82		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period			Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st	Q'87	$ 4,339	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st	Q'87	$ 3,735	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st	Q'87	4.3	1.1	3.8
Change in Consumer Prices*	Mar	'87	4.8% (1)	8.4% (1)	− 4.8%
Change in Producer Prices*	Mar	'87	4.8%	1.2%	− 10.8%
Civilian Employment (Thousands of Persons)†	Apr	'87n	111,835	111,368	108,969
Unemployment as % of Civilian Labor Force†	Apr	'87n	6.3%	6.6%	7.1%
Personal Income*	Mar	'87	$ 3,604	$ 3,599	$ 3,445
Leading Indicators Composite Index (1967=100)†	Mar	'87n	187.5	186.8r	176.4
Industrial Production Index (1977=100) †	Mar	'87	126.7	127.1	123.6
Net Change in Consumer Installment Credit †	Mar	'87n	−$ 0.06	$ 1.01r	$ 2.39
U.S. Merchandise Trade Balance	Feb	'87	−$ 15.07	−$ 12.27	−$ 11.37
Plant and Equipment Expenditures*	2nd	Q'87	$396.22(a)	$384.02(a)	$375.92
Private Housing Starts (Thousands of Units)	Mar	'87	1,774	1,833	1,887
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Total Business Inventories †	Feb	'87	$ 660.2	$ 659.0	$ 651.9
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(1) Indicates new series.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 11

Friday, May 22, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Small Businesses . . .

This month, the nation once again honors its entrepreneurial spirit with the celebration of Small Business Week. For seven days, beginning May 10, attention was given to the establishments that dominate our economy—and our lives—every day of the year. Small companies are deeply rooted in every local community and neighborhood. Small business owners and entrepreneurs are among the most dynamic and innovative leaders of the business community. They develop new products and services and provide new jobs, technological innovations, managerial talent, new skills and training. Their willingness to confront uncertainty with creativity and determination to succeed gives the United States an economic vitality no other country can claim.

One example of how an economy which is dominated by small businesses can prosper is Long Island, a suburb of New York City. Companies which employ less than 100 people now comprise 98.5 percent of all private establishments on Long Island, providing three out of every five jobs. These companies have been the main driving force behind the Island's rapidly growing economy and they generated the preponderance of employment growth. During the 1980s, companies with less than 100 employees increased their payrolls by more than 23 percent, while larger firms boosted theirs by less than 16 percent. At the same time, small businesses provided the largest share of the new jobs generated in the private sector, accounting for 64 percent of the total.

. . . Propel Long Island's Economy . . .

Long Island is enjoying unparalleled economic performance. Job growth in the 1980s has been among the highest of the large employment centers in the nation. With more than 1.1 million jobs in 1986, nonagricultural employment entered 1987 at a record level. More than 34,500 new jobs were added to payrolls last year, with the gains posted across the entire employment spectrum.

Several sectors have made exceptional contributions to Long Island's growth. Buoyed by low interest rates, construction has outperformed all other categories in terms of employment growth. Construction companies employed more than 55,000 workers last year—an all-time high, and their share of total employment climbed from 3.8 percent just five years ago to five percent in 1986. Finance, insurance, and real estate also generated impressive gains. Last year a record 5,800 new jobs were added to this group's payroll, a gain of nearly nine percent. In fact, from 1970 to 1986, employment in this sector more than doubled, rising from 33,000 to 71,000. Fueled by the demands created by a growing and affluent population and a business community that has grown large enough to support a broad range of service industries, the service and trade categories also posted sizable gains.

Not all categories are strong. The Island's manufacturing sector is beginning to show signs of weakening. After surging by more than 9,000 jobs in 1984, gains in factory employment on Long Island have begun to taper off. Factories added 1,800 new workers in 1985, but only 800 new positions last year. The entire gain in factory employment last year took place in the durable goods sector. The largest advance was in the transportation equipment industry, with employment up by 4.2 percent. Nondurable goods manufacturing posted no change.

Although overall factory employment on Long Island posted only a modest gain of 0.5 percent last year, it nevertheless compares favorably with the performance of the manufacturing sector in other areas. For example, last year factory employment declined 0.7 percent nationally, 3.3 percent in New York State, and 4.1 percent in New York City.

Strong employment growth has helped to drive down the Island's unemployment rate to one of the lowest in the country. At a record low of 4.4 percent last year, it was considerably below the 7.0 percent jobless rate nationwide, 6.3 percent in New York State and 7.4 percent in neighboring New York City.

Manufacturers
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17/270

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. . . But Some Problems Have Emerged

Although a low unemployment rate is one enviable indicator of prosperity, the resulting shortages of both skilled and unskilled workers have begun to impose limits on Long Island's future economic growth. Already, buses transport workers from New York City's outer boroughs; entry-level and part-time employees are anxiously courted; and, in many cases, positions remain unfilled. The Island's labor squeeze prevents many businesses from operating efficiently, and competition for workers is raising labor costs.

The main reason for the inability of Long Island's companies to attract new employees is that many cannot afford to reside on the Island because of its high cost of living and high taxation. Although Long Island has a high per capita income, this figure overstates total buying power, because it ignores high local taxes. The tax burden disparity between Long Island and comparable areas appears to be widening as municipalities over-utilize property, sales, corporate, and income taxes as revenue sources. Last year, for example, county governments assured the public that property tax increases would not be necessary, but by yearend, however, both Nassau and Suffolk had raised property taxes.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/6/87)	159,831	+ 229	+ 3,853
New York City (5/13/87)	36,431	– 34	+ 1,955
Commercial Paper (5/13/87)	354,500	+ 556	+ 46,684

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/6/87)	278,496	+ 808	+17,085
New York City (5/13/87)	61,721	– 70	+ 3,634

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/6/87)	795,698	+ 745	+61,890
New York City (5/13/87)	175,980	– 3,009	+18,402

Financial Markets

	Friday 5/22/87	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.70%	– .37	– .63
180-Day Bills†	6.39	– .16	– .11
Longest Bills†	7.04	– .19	+ .37
Recent Issues:			
8s 5/31/89 (When Issued)	7.95	NA	
6$\frac{3}{4}$s 3/31/91	8.36	+ .01	
8$\frac{1}{2}$s 5/15/97	8.76	– .06	
8$\frac{3}{4}$s 5/15/17	8.92	– .06	
Municipals:			
Bond Buyer–20 Bond Index* (5/21/87)	8.31%	+ .49	+ .53
Blue List Total ($ Million)	$1,810	+ $ 207	–$ 320
30-Day Visible Supply ($ Million)	$2,722	– $ 15	–$ 957
Total	$4,532	+ $ 192	–$1,277
Corporates:			
Moody's Aa Composite (5/21/87)	9.80%	+ .27	+ .28
30-Day Visible Supply ($ Million)	$3,393	– $1,090	+$ 101
Stocks:			
Dow-Jones Averages:			
Industrials	2,243.20	– 29.32	+419.91
Transportation	933.81	– 30.05	+135.85
Utilities	195.01	– 3.69	+ 10.66
65 Stocks	839.56	– 16.13	+132.85
N.Y.S.E. Composite Index	159.05	– 3.20	+ 20.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,542	– 1,016	+53,262

*46% Taxable equivalent 15.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/22/87	Week Ago
Overnight	6.50%	6.81%
1 month	7.06	7.13
3 month	7.44	7.44
6 month	7.75	7.69
1 year	8.31	8.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.06%	8.76%
Long Term (10 yrs.)	9.68	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/22/87)	Currency Per U.S. $	Week Ago
Canada	1.3466	1.3373
France	5.9420	5.9510
Germany	1.7748	1.7800
Italy	1285.00	1289.00
Japan	140.40	139.18
Mexico	1265.00	1235.00
Switzerland	1.4560	1.4610
U.K.*	1.6815	1.6802

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/22/87) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+1.0%	–7.3%

The lack of affordable housing also prevents many potential workers from accepting positions there. The rapidly growing economy and the desirability of living on the Island have led to sharp increases in housing prices. A typical 3-bedroom home in Nassau County was priced at $185,000 at the end of last year, compared with only $81,500 in Houston and $128,800 in Miami.

The high cost of living, high taxation and other costs of doing business on Long Island and shortages of both skilled and unskilled labor are only some of the problems that are starting to undercut the competitive position and profitability of Long Island businesses. The expanding economy has also put enormous demands on public transportation systems, energy and water supplies, garbage disposal and environmental resources. Unless addressed, these problems may well erode the business climate on Long Island, making it less competitive than other regions, thus forcing companies to relocate or expand elsewhere. Indeed, the Island's major employer recently announced plans to relocate parts of its Long Island-based operations to other areas of the U.S. where living costs—and wages—are much lower. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	5/20/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	222.261	− 4.719	+33.902
Loans to Depository Inst.	.891	+ .123	+ .043
Float	1.024	+ .806	+ .603
Total Reserve Bank Credit	239.656	− 5.627	+35.075
Treasury Deposits with Federal Reserve Banks	14.940	− 6.066	+10.968
Currency in Circulation	212.003	+ .258	+15.589
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	182.993	+ 3.789	+34.682
	5/20/87		
Member Bank Reserves:			
Total Reserves Held	57.276	− .855	+ 9.696
Excess (Deficiency)	1.221	+ .198	+ .533
Net Free Reserves	.667	+ .755	+ .235
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (5/11/87)	750.6	+ 11.0‡	+ 15.7‡
M2 (April '87)	2,839.0	+ 2.4	+ 8.2
M3 (April '87)	3,540.0	+ 2.8	+ 7.5
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/22/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.60%	6.15%	6.66%
* Federal Agencies	6.62	6.87	7.20
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.33	8.80	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.24	7.60	8.10

‡Finance Company Paper--Prime		‡* Bankers' Acceptances	
5- 14 days	6.70%	Jun.	7.00%
15- 29 days	6.85	Jul.	7.05
30- 59 days	6.85	Aug.	7.15
60- 89 days	6.90	Sep.	7.20
90-179 days	6.77	Oct.	7.35
180-239 days	6.70	Nov.	7.35
240-270 days	6.70		

‡Industrial Paper—Prime			
30- 89 days	6.92%	†Federal Funds Effective Rate	6.75%
90-120 days	7.05		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,348r	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,736r	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.4r	1.1	3.8
Change in Consumer Prices*	Apr '87n	4.8% (1)	4.8% (1)	− 3.6%
Change in Producer Prices*	Apr '87n	8.4%	4.8%	− 6.0%
Civilian Employment (Thousands of Persons)†	Apr '87	111,835	111,368	108,969
Unemployment as % of Civilian Labor Force†	Apr '87	6.3%	6.6%	7.1%
Personal Income*	Mar '87	$ 3,604	$ 3,599	$ 3,445
Leading Indicators Composite Index (1967=100)†	Mar '87	187.5	186.8	176.4
Industrial Production Index (1977=100) †	Apr '87n	126.3	126.8r	124.7
Net Change in Consumer Installment Credit †	Mar '87	−$ 0.06	$ 1.01	$ 2.39
U.S. Merchandise Trade Balance	Mar '87n	−$ 13.63	−$ 15.06r	−$ 12.18
Plant and Equipment Expenditures*	2nd Q'87	$396.22(a)	$384.02(a)	$375.92
Private Housing Starts (Thousands of Units)*	Apr '87n	1,699	1,749r	1,945
New Construction Expenditures*	Mar '87	$ 379.0	$ 383.9	$ 368.0
Total Business Inventories †	Mar '87n	$ 662.8	$ 660.5r	$ 653.9r
Total Business Sales †	Mar '87n	$ 446.7	$ 443.2r	$ 414.7r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Great Cause, Great Golf!

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This year, defending champion Bob Tway and other top pros from the PGA Tour will compete for $600,000 in prize money.

Tickets are on sale at all the participating hospitals through June 5, thereafter at the gate. Use your Mastercard or Visa Card, by calling (212) 808-8519, Monday through Friday, 9 a.m. -5 p.m.

Spectators are urged to arrive early and be among the first 1500 each day to receive a free visor at the gate. **Make it a point to stop by the Expo '87 tent behind the 18th green.**

Benefiting Hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General, Peekskill and Putnam Hospital Center.

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Financial
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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 12

Monday, June 8, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Mobile Homes Appeal . . .

Like many other industries in the United States, the mobile home industry has recently undergone a wave of mergers, consolidations and reorganizations, leaving a slimmer but financially more viable industry with fewer players. In the early 1970s, some 400 firms produced mobile homes; by 1985, this number was down to 164 firms.

In 1974, the Federal government established a national building code for mobile homes which allowed producers to avoid the hodgepodge of local codes which hindered efficiency and improvements in standard house construction. In addition, the law set high manufacturing and performance standards adding to the acceptability of the product but at the same time raising the financial needs of mobile home manufacturers.

As a result, success in this increasingly capital-intensive industry is now largely dependent on having sufficient financial strength to compete nationally, or in a large regional market with a broad product line. A firm must also be able to sustain operations during economic downturns because of the mobile home industry's high sensitivity to the business cycle (see chart). Such a close relationship is understandable, since important segments of the mobile home market are blue-collar workers and young first-time homebuyers whose jobs are especially affected by changes in the business cycle.

Manufacturers
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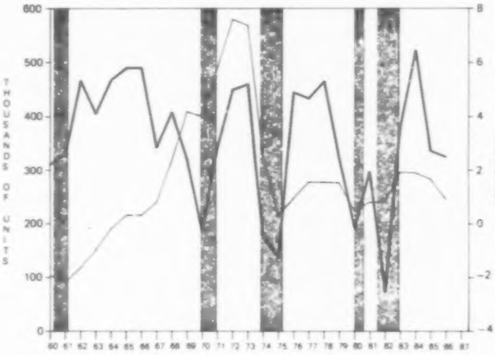
Economics
Department
17/270

Noncyclical events also affect the mobile home market. The sharp rise in mobile home shipments between the early 1960s and the early 1970s can be traced not only to the 106-month U.S. economic expansion–the longest on record–but also to both regional housing shortages and the maturing of the post-World War II baby-boom generation which produced large numbers of first-time homebuyers, a primary mobile home market. However, the economic upswing that began in 1975, could not alleviate the aftereffects of the Manufactured Housing Act of 1974 which held down expansion of the mobile home market. The new restrictions on the industry resulted in a much lower level of mobile home shipments as production lines were revamped to improve quality and marginal firms were forced out.

GROWTH IN REAL GNP (THICK)
SHIPMENTS OF MOBILE HOMES (THIN)



Another factor thought to influence mobile home demand is changes in interest rates for conventional homes. It has been argued that a rise in conventional mortgage rates causes marginal buyers of conventional homes to "shift-down" to mobile homes. However, historical data do not support this reasoning, and other factors may explain why. For instance, there is a dichotomy between the two markets with a marked aversion on the part of many homebuyers against mobile homes. Although this stigma arose before the 1970s when many of the products were shoddily built and carried a "gypsy" image, the industry continues to struggle against this prejudice despite improvements since 1974.

. . . To The Young And The Retired . . .

The major appeal of mobile homes is their relatively low price which, on a square footage basis, can run as much as 30 percent below equivalent conventional construction. In 1985, for example, the average sales price of a conventionally built U.S. single-family home was close to $100,000 while the average sales price for a manufactured home was only $22,000, and 79 percent of new mobile homes sold for under $50,000. This lower price explains why mobile homes tend to appeal to those on a limited income–especially to people at both ends of their homebuying years, first-time homeowners and retirees. In 1983 the median income of mobile homeowners was $14,300–59 percent of the median income of all homeowners.

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The difference in mobile home financing compared with conventional home mortgages also tends to favor mobile homes. Generally, buyers pay at least two to three percentage points more than the mortgage rates for new conventional homes and the loan period for a mobile home is shorter, but the amount borrowed is usually considerably less. This frequently results in a lower monthly payment—an important factor for people on limited incomes.

Besides low cost, manufactured housing is popular for its quick availability. Mobile homes are used as housing for itinerant workers involved in long-term projects such as oil field exploration and dam construction. Because this is a significant part of the mobile home market, problems in the oil and mining industries in the South and West—the principal regional markets for mobile homes—have significantly affected sales.

. . . An Expanding Market

The future for the mobile home industry will be influenced to a large extent by shifts in the American population. The two principal groups of prospective mobile

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/20/87)	162,690	+ 2,140	+ 6,930
New York City (5/27/87)	37,289	– 37	+ 3,001
Commercial Paper (5/27/87)	358,490	– 881	+ 48,356

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/20/87)	280,571	+ 3,410	+21,726
New York City (5/27/87)	62,272	– 1,089	+ 5,576

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/20/87)	799,864	+ 9,401	+61,516
New York City (5/27/87)	178,725	– 1,661	+19,347

Financial Markets

	Friday 6/5/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.83%	–0–	– .66
180-Day Bills†	6.26	– .17	– .40
Longest Bills†	6.87	+ .04	+ .05
Recent Issues:			
8s 5/31/89	7.62	– .05	
6¾s 3/31/91	8.01	– .03	
8½s 5/15/97	8.49	+ .01	
8¾s 5/15/17	8.67	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (6/4/87)	7.97%	– .06	–0–
Blue List Total ($ Million)	$1,377	– $ 71	–$ 751
30-Day Visible Supply ($ Million)	$2,200	– $853	–$2,322
Total	$3,577	– $924	–$3,073
Corporates:			
Moody's Aa Composite (6/4/87)	9.79%	+ .07	+ .23
30-Day Visible Supply ($ Million)	$5,183	+ $427	+$ 838
Stocks:			
Dow-Jones Averages:			
Industrials	2,326.15	+ 34.58	+440.25
Transportation	986.66	+ 9.98	+191.28
Utilities	198.64	+ 1.78	+ 10.88
65 Stocks	873.51	+ 11.12	+151.67
N.Y.S.E. Composite Index	165.49	+ 2.01	+ 24.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	147,437	– 10,351	+32,503

*46% Taxable equivalent 14.76%.

† Bond equivalent.

International Rates

	Friday 6/5/87	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	6.56%	6.50%
1 month	7.00	7.06
3 month	7.19	7.19
6 month	7.50	7.44
1 year	7.94	7.78
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.82%	8.78%
Long Term (10 yrs.)	9.43	9.35

FOREIGN EXCHANGE SPOT RATES New York Opening (6/5/87)	**Currency Per U.S. $**	**Week Ago**
Canada	1.3445	1.3390
France	6.0580	6.0735
Germany	1.8115	1.8240
Italy	1311.25	1317.00
Japan	143.32	144.05
Mexico	1292.00	1279.00
Switzerland	1.5088	1.5140
U.K.*	1.6347	1.6245

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/5/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.6%	–4.6%

homebuyers—the younger, newly married "entry-level" group and retired people aged 60 and over—will follow divergent paths in terms of their importance in the U.S. between now and the end of the century. The 25 to 44-year old group, which forms the bulk of first-home buyers, will increase from about 75.8 million persons in 1986 to an estimated 82.5 million in 1995 and then decline to about 80.2 million in 2000. This group will, however, be skewed toward the higher end of the age range, which suggests that they may move toward more expensive, spacious conventional housing as they increase their income and have families. The 18 to 34-year age group will decline in number and as a percentage of the total population by 2000.

But on the other end of the age spectrum, the number of persons over 60 years old will rise from the present level by about five million to over 45 million by the year 2000. Consequently, there will likely be a substantial rise in demand for mobile homes from this market segment—people wanting relatively small, easily maintained and inexpensive housing with low monthly payments. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/3/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	214.312	– 5.937	+24.198
Loans to Depository Inst.	760	– .667	– .092
Float	.940	+ .254	+ .482
Total Reserve Bank Credit	231.081	– [illegible]	+24.597
Treasury Deposits with Federal Reserve Banks	5.067	– 7.617	+ 2.380
Currency in Circulation	213.772	+ .882	+15.732
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	182.495	+ 3.022	+35.427
	6/3/87		
Member Bank Reserves:			
Total Reserves Held	56.964	– .314	+ 9.111
Excess (Deficiency)	1.327	+ .264	+ .313
Net Free Reserves	.530	+ .021	– .179

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (5/25/87)	758.1	+ 8.8‡	+ 14.5‡
M2 (April '87)	2,839.2	+ 2.4	+ 8.2
M3 (April '87)	3,540.6	+ 2.8	+ 7.5
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/5/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.69%	6.03%	6.47%
* Federal Agencies	6.60	6.73	6.92
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.15	7.41	7.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.97	7.27	7.80

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.63%	Jul.	6.78%
15- 29 days	6.65	Aug.	6.80
30- 59 days	6.88	Sep.	6.85
60- 89 days	6.88	Oct.	6.98
90-179 days	6.80	Nov.	7.00
180-239 days	6.70	Dec.	7.02
240-270 days	6.70		

‡Industrial Paper—Prime			
30- 89 days	6.90%	†Federal Funds	
90-120 days	6.95	Effective Rate	6.75%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,348	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,736	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.4	1.1	3.8
Change in Consumer Prices*	Apr '87	4.8% (1)	4.8% (1)	– 3.6%
Change in Producer Prices*	Apr '87	8.4%	4.8%	– 6.0%
Civilian Employment (Thousands of Persons) †	May '87n	112,447	111,835	109,165
Unemployment as % of Civilian Labor Force †	May '87n	6.3%	6.3%	7.2%
Personal Income*	Apr '87n	$ 3,616	$ 3,606r	$ 3,487
Leading Indicators Composite Index (1967=100) †	Apr '87n	186.6	187.7r	178.1r
Industrial Production Index (1977=100) †	Apr '87	126.3	126.8	124.7
Net Change in Consumer Installment Credit †	Mar '87	–$ 0.06	$ 1.01	$ 2.39
U.S. Merchandise Trade Balance	Mar '87	–$ 13.63	–$ 15.06	–$ 12.18
Plant and Equipment Expenditures*	2nd Q'87	$396.22(a)	$384.02(a)	$375.92
Private Housing Starts (Thousands of Units)*	Apr '87	1,699	1,749	1,945
New Construction Expenditures*	Apr '87n	$ 384.1	$ 382.4r	$ 373.9
Total Business Inventories †	Mar '87	$ 662.8	$ 660.5	$ 653.9
Total Business Sales †	Mar '87	$ 446.7	$ 443.2	$ 415.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

(1) Indicates new series.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 13

Monday, June 22, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Summer Means Vacation And Fun . . .

If you have not done so already, now is the time to pull out the road atlas, reserve your airline tickets or check your camping gear. Summer is here, and for most Americans that means time for a vacation. And while the last thing most people associate with their vacations is work, travel and tourism is big business in America. Viewed as a single industry, tourism can be considered the largest industry of the retail sector, directly or indirectly generating one out of every eight jobs in America and accounting for about seven percent of the gross national product. Given its importance, it is good news for the entire economy that travel spending in the U.S. is expected to grow about six percent this year.

Lower gasoline prices and the continued economic expansion will stimulate travel in the United States. And while the lower dollar has yet to make a significant dent in our trade deficit, it should encourage tourism here. The currency's depreciation makes it more expensive for Americans to travel to Europe while making our country a vacation bargain for Europeans and the Japanese. As a result, the number of foreign visitors this year is expected to come close to the record 23.5 million of 1981.

The greater influx of foreign travelers actually began last year. Spending by foreigners in the U.S. rose 6.8 percent in 1986, while Americans spent 1.2 percent less abroad. This resulted in a shrinking of our foreign travel deficit from $10.2 billion in 1985 to $9.0 billion in 1986. The dollar's fall also caused a shift in the countries Americans visited last year. The dollar's favorable position vis-a-vis its Canadian counterpart, coupled with the Vancouver Expo, pushed U.S. tourism to Canada up by 17 percent. European travel, however, dropped by an estimated 25 percent.

A shift in the composition of foreign travelers to the U.S. also occurred last year. The much weaker dollar and increased U.S. promotion abroad raised the number of European visitors by 20 percent, while Mexico's economic problems and the devaluation of the peso decreased travelers from that country by 15 percent.

. . . As More Foreigners Visit The U.S. . . .

Since foreigners spend twice as much as domestic travelers, the increase in foreign visitors this year will give an important boost to our tourism industry. Americans will also be crisscrossing the U.S., but the trend is for Americans to take shorter vacations, probably because most Americans only have two weeks of paid vacation time a year. So, although the average household took almost five pleasure trips last year, three quarters of these lasted less than three days and only one lasted more than four days. According to the Conference Board, half of all consumers will take a vacation within the next six months with ten percent staying in their home state, and 34 percent traveling to another part of the U.S. Only 6.7 percent intend to go abroad.

Despite the two-week constraint on paid vacations, Americans are still enjoying more leisure time than ever before. The move toward a service economy has produced a shorter workweek for most Americans. While, on average, manufacturing workers spend about 41 hours a week in their factories, service workers are at work only about 32 hours. With shifts in the employment composition, introduction of new technology and different labor practices, Americans have set a clear trend of less time

CONSUMER SPENDING ON SELECTED RECREATIONAL GOODS AND SERVICES

(Billions of Dollars)

	1980	1986	Percent Change
Total Recreation	$115.0	$182.2	58.4%
Books and maps	6.0	8.4	40.0
Nondurable toys and sports supplies	14.6	21.1	44.5
Durable toys, sports equipment, boats and pleasure aircraft	17.2	28.6	66.3
Admission to specified spectator amusements	6.5	10.3	58.5
Movies	2.7	4.0	48.1
Legitimate theater and opera	1.8	3.3	83.3
Spectator sports	2.0	3.0	50.0
Commercial participant amusements	9.7	15.6	60.8

Source: Department of Commerce

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in the workplace. In 1970, the average workweek for all private businesses was 37.1 hours; by 1980, this had shrunk to 35.3 hours. And in the first quarter of this year, only 34½ hours a week were devoted to earning a paycheck.

. . . And Leisure Becomes Big Business

Certainly, most of this nonwork time is used for the mundane tasks of everyday living: cleaning, shopping, commuting to and from work. But, without a doubt, Americans like to enjoy themselves and do not mind spending a few bucks to do it. In 1986, Americans spent $182 billion on recreational goods and services, up nearly 60 percent since 1980 (see table on page 1).

Although as a percentage of all consumer expenditures, recreation has stayed level over the past decade at about 6.6 percent, Americans today want more activity in their relaxation. People are using a greater proportion of their entertainment dollars than they did ten years ago on such participatory amusements as dancing, bowling, golfing, sightseeing and swimming. Moreover, if you can fly it, ride it or sail it, people want it. Spending on boats and pleasure aircraft has increased 73 percent since 1980 to about

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/3/87)	165,688	+ 1,191	+ 8,668
New York City (6/10/87)	36,664	– 722	+ 2.236
Commercial Paper (6/10/87)	355,653	– 313	+ 43,645

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/3/87)	278,662	– 206	+16,674
New York City (6/10/87)	61,489	– 612	+ 4,886

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/3/87)	799,303	+ 4,485	+58,300
New York City (6/10/87)	180,136	– 906	+20,898

Financial Markets

	Friday 6/19/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.80%	+ .12	– .45
180-Day Bills†	6.18	+ .10	– .25
Longest Bills†	6.68	–0–	+ .11
Recent Issues:			
8s 5/31/89	7.40	– .06	
6 3/4s 3/31/91	7.78	– .04	
8 1/2s 5/15/97	8.29	– .02	
8 3/4s 5/15/17	8.46	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (6/18/87)	7.63%	– .20	– .19
Blue List Total ($ Million)	$1,406	– $ 35	–$ 444
30-Day Visible Supply ($ Million)	$2,362	+ $352	–$ 698
Total	$3,768	+ $317	–$1,142
Corporates:			
Moody's Aa Composite (6/18/87)	9.60%	– .10	+ .12
30-Day Visible Supply ($ Million)	$3,403	+ $188	–$ 442
Stocks:			
Dow-Jones Averages:			
Industrials	2,420.85	+ 43.12	+541.31
Transportation	1,026.94	– 2.59	+248.81
Utilities	205.55	+ 1.78	+ 15.06
65 Stocks	908.52	+ 9.86	+190.91
N.Y.S.E. Composite Index	172.57	+ 2.72	+ 30.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	177,977	+ 15,467	+51,777

*46% Taxable equivalent 14.13%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/19/87	Week Ago
Overnight	6.62%	6.56%
1 month	7.00	6.94
3 month	7.06	7.06
6 month	7.25	7.25
1 year	7.69	7.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.34%	8.64%
Long Term (10 yrs.)	8.98	9.27

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/19/87)	Currency Per U.S. $	Week Ago
Canada	1.3385	1.3411
France	6.0940	5.9925
Germany	1.8275	1.7935
Italy	1321.25	1301.70
Japan	144.78	142.45
Mexico	1325.00	1309.00
Switzerland	1.5180	1.4840
U.K.*	1.6225	1.6635

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/19/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.8%	–2.5%

$7½ billion. Exotic pasttimes are also becoming commonplace, whether it be hot air ballooning or whitewater rafting. The Balloon Federation of America, for instance, estimates that over 5,000 people hold ballooning licenses today compared with only 440 in 1974.

If Americans are not using their increased leisure time to play their favorite sports, then they may be watching their favorite sports team. On any given Sunday afternoon last autumn, for example, over 725,000 people were in the stands watching a pro football game. Major league baseball attracted 47½ million ticketholders last year; and during the 1985-86 season, over 12 million fans passed through the turnstiles of the National Hockey League.

All this activity does not mean every American is going for the gusto. Just sitting back and relaxing remains popular, but even this costs money. Americans spent over $8 billion on books last year. And with the growth of cable, TV is no longer the free entertainment it was once. Although cable was virtually nonexistent 20 years ago, by 1986, households were paying almost $9 billion for cable subscriptions. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/17/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	215.160	– .412	+22.842
Loans to Depository Inst.	.651	+ .032	– .083
Float	.825	+ .329	– .284
Total Reserve Bank Credit	231.766	+ .094	+22.285
Treasury Deposits with			
Federal Reserve Banks	3.879	+ .167	+ .804
Currency in Circulation	214.785	+ .294	+15.906
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	179.846	+ 1.281	+31.439
	6/17/87		
Member Bank Reserves:			
Total Reserves Held	58.020	+ 1.153	+10.167
Excess (Deficiency)	.836	– .304	– .178
Net Free Reserves	.555	+ .258	– .154
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/8/87)	745.7	+ 4.0‡	+ 13.7‡
M2 (May '87)	2,839.9	+ 2.7	+ 7.3
M3 (May '87)	3,555.3	+ 4.2	+ 7.3
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/19/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.66%	5.94%	6.30%
* Federal Agencies	6.60	6.62	6.78
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.48	6.85	7.22
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.90	7.10	7.70

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.63%	Jul.	6.80%
15- 29 days	6.80	Aug.	6.80
30- 59 days	6.85	Sep.	6.80
60- 89 days	6.88	Oct.	6.82
90-179 days	6.90	Nov.	6.82
180-239 days	6.90	Dec.	6.82
240-270 days	6.90		

‡Industrial Paper—Prime			
30- 89 days	6.88%	†Federal Funds	
90-120 days	6.90	Effective Rate	7.00%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,352r	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,739r	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.8r	1.1	3.8
Change in Consumer Prices*	Apr '87	4.8% (1)	4.8% (1)	– 3.6%
Change in Producer Prices*	May '87n	3.6%	8.4%	6.0%
Civilian Employment (Thousands of Persons)†	May '87	112,447	111,835	109,165
Unemployment as % of Civilian Labor Force†	May '87	6.3%	6.3%	7.2%
Personal Income*	May '87n	$ 3,630	$ 3,622r	$ 3,481
Leading Indicators Composite Index (1967=100)†	Apr '87	186.6	187.7	178.1
Industrial Production Index (1977=100) †	May '87n	127.8	127.2r	124.2
Net Change in Consumer Installment Credit †	Apr '87n	$ 2.93	$ 0.32r	$ 5.93
U.S. Merchandise Trade Balance	Apr '87n	–$ 13.32	–$ 13.63	–$ 14.28
Plant and Equipment Expenditures*	3rd Q'87n	$397.06(a)	$392.02(a) r	$374.55
Private Housing Starts (Thousands of Units)*	May '87n	1,620	1,665r	1,848
New Construction Expenditures*	Apr '87	$ 384.1	$ 382.4	$ 373.9
Total Business Inventories †	Apr '87n	$ 664.3	$ 663.0r	$ 655.4
Total Business Sales †	Apr '87n	$ 443.6	$ 445.0r	$ 422.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Gencorp Inc.

$1,750,000,000
Senior Bank Financing

Manufacturers Hanover Trust Company acted as Agent for the above financing

Nu-Kote International, Inc.
a new corporation formed by
Clayton & Dubilier, Inc.
has acquired
The International Business Forms Division
and
Worldwide Office Supplies Division
of
UNISYS

$48,000,000
Senior Bank Financing

Manufacturers Hanover Trust Company structured and provided financing for the above transaction

Lear Siegler, Inc.
has been acquired by
LS Acquisition Corporation
an affiliate of
Forstmann Little & Co.

$1,400,000,000
Senior Bank Financing

Manufacturers Hanover Trust Company acted as Lead Manager for the above financing

Itel Corporation
has secured permanent financing for the leveraged acquisition of
Anixter Brothers, Inc.

$400,000,000
Senior Bank Financing

Manufacturers Hanover Trust Company structured this transaction and acted as Lead Manager in its syndication

Owens-Illinois, Inc.
has been acquired in a leveraged buyout by
OII Holdings Corporation
a new corporation formed by
Kohlberg Kravis Roberts & Co.

$3,600,000,000
Senior Bank Financing

Manufacturers Hanover Trust Company acted as Co-Manager for the above financing

Campeau Acquisition Corp.
has acquired
Allied Stores Corporation

$3,281,200,000
Senior Bank Financing

Manufacturers Hanover Trust Company acted as Agent in the above transaction

The Investment Banking Group

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 14

Monday, July 6, 1987

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

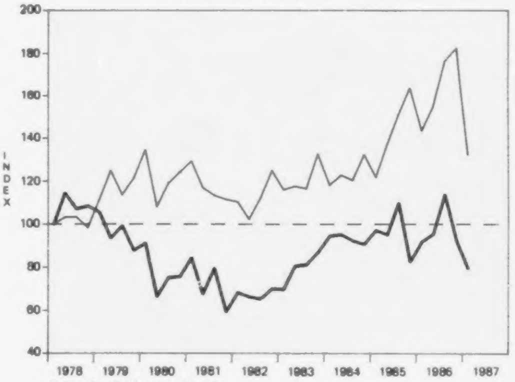
Domestic Auto Sales Downshift . . .

As the current business expansion matures, the domestic automobile industry, one of the driving forces moving the economy, seems to be running out of gas. Domestic market share is falling, sales are sluggish, inventories are rising, and the possibility of a strike by the United Auto Workers (UAW) is looming. Even with the many sales incentives being offered, auto sales remain lackluster. So far this year, domestic auto sales are running 11 percent below the pace set during the same period in 1986 and 15 percent lower than the same period two years ago. Imported car sales are lower as well, with the weaker dollar pushing up import prices, but sales of imports have not fallen as much as domestic car sales. For the January-May 1987 period, imported car sales fell only six percent compared with the same period a year ago.

For 1987 as a whole, domestic car sales will do well to reach seven million units, a decline of 13½ percent from the 8¼ million cars sold during 1986. Imported car sales are expected to fall only four percent during 1987, and a large part of this decline will be in the Japanese car lines. Japanese car prices have risen sharply due to the appreciation of the yen, with some analysts estimating the price hike to be as high as 20 percent over the past 18 months. However, U.S. car producers will not be able to reap all the benefits of higher Japanese and European import prices since such low-priced imports as the highly-successful Korean Hyundai, are filling the gap, buoying foreign sales. Imported cars may well account for 30½ percent of total car sales in the U.S. in 1987, up from 28 percent last year.

Rising interest rates, falling consumer confidence and low personal savings are some of the reasons why the industry expects a lower sales pace in 1987. In addition, despite all the sales incentives, affordability of autos has not improved in recent years. In 1970, the average domestic car sold for $3,430, according to the Commerce Department, accounting for 36.4 percent of median family income. Last year, the average price was $12,450, or 44.9 percent of median family income. Another reason for expecting lower sales is that some buyers already purchased their cars in 1986 to take advantage of the sales tax deductibility which was eliminated by tax reform effective January 1, 1987. This artificially pushed up 1986's sales, thereby lowering 1987's.

DOMESTIC (THICK) VS. IMPORTED (THIN) NEW CAR SALES
<FIRST QUARTER 1978=100>



Source: Bureau of Economic Analysis

. . . As The Business Expansion Matures . . .

Another important factor in the slowing of car sales is the length of the current business expansion. The economy has just completed its 55th month of recovery and is only four months away from recording the longest peacetime expansion on record. Basic demand for automobiles is not as strong as it used to be, since there is little or no pent-up demand waiting to be filled as was the case in the first few years of the ongoing expansion. So for 1987 and beyond, the sales picture remains bleak, and another decline should not be ruled out in 1988.

To maintain profitability in the face of slow sales and an inability to boost prices, the Big Three automakers are relying more on outsourcing and subcontracting of vehicles and components from lower-cost U.S. suppliers and such foreign countries as Mexico and Korea. This shift toward outsourcing will be one of the problems discussed during contract negotiations between automakers and the UAW this summer. The UAW wants stronger curbs on such subcontracting, since it results in job losses for UAW members. The UAW will also be bargaining for guaranteed employment, reduced work time, pension improvements and the restoration of the traditional annual

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wage increases. Industry analysts believe that negotiations will be complicated, since the automakers' main concern will be increased competitiveness, while the UAW's top priority will be job guarantees.

. . . But Imports Are Gaining Ground

Aside from labor problems, the road ahead will continue to be rocky for domestic car producers. According to a lengthy study by the Massachusetts Institute of Technology, excess production capacity in North America today totals more than four million cars a year. The four-year study, which is not completed yet, projects that the share of the new-car market held by U.S.-based automakers will decline to 52 percent by 1990, down from 67 percent in 1986.

The MIT study, however, also states that the future is not all negative. This is because the best of the U.S. car plants are world-class in terms of productivity and quality. However, a great number of existing plants are not efficient. And between the best and the worst plants there is an enormous gap, with the worst ones not being competitive.

One of the consequences of Detroit's continued use of these many inefficient plants is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/17/87)	165,986	+ 130	+ 9,999
New York City (6/17/87)	36,374	− 290	+ 2,371
Commercial Paper (6/17/87)	359,221	+ 3,537	+ 42,031

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/17/87)	277,600	− 509	+16,149
New York City (6/17/87)	61,573	+ 84	+ 5,322

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/17/87)	799,613	+ 621	+59,303
New York City (6/17/87)	178,295	− 1,568	+19,090

Financial Markets

	Thursday 7/2/87	Change Since Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.81%	− .11	− .24
180-Day Bills†	6.00	− .38	− .08
Longest Bills†	6.56	− .17	+ .32
Recent Issues:			
8s 5/31/89	7.34	− .17	
$7\frac{7}{8}$s 6/30/91	7.80	− .12	
$8\frac{1}{2}$s 5/15/97	8.29	− .06	
$8\frac{3}{4}$s 5/15/17	8.44	− .04	
Municipals:			
Bond Buyer—20 Bond Index* (7/1/87)	7.81%	+ .09	+ .30
Blue List Total ($ Million)	$1,781	+ $ 65	−$ 93
30-Day Visible Supply ($ Million)	$2,046	− $ 258	−$2,362
Total	$3,827	− $ 193	−$2,455
Corporates:			
Moody's Aa Composite (7/1/87)	9.60%	+ .01	+ .29
30-Day Visible Supply ($ Million)	$4,472	+ $1,738	+$ 747
Stocks:			
Dow-Jones Averages:			
Industrials	2,436.70	− .16	+535.83
Transportation	1,030.43	+ .64	+252.68
Utilities	205.90	− 1.32	+ 5.14
65 Stocks	912.77	− .66	+184.86
N.Y.S.E. Composite Index	171.83	− .84	+ 27.16
N.Y.S.E. Avg. Daily Vol. for Week (000's)	155,176	− 14,870	+19,898

*34% Taxable equivalent 11.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 7/2/87	Week Ago
Overnight	6.50%	6.63%
1 month	6.81	7.06
3 month	6.94	7.13
6 month	7.13	7.25
1 year	7.44	7.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.48%	8.31%
Long Term (10 yrs.)	9.08	8.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/2/87)	Currency Per U.S. $	Week Ago
Canada	1.3300	1.3310
France	6.0990	6.0925
Germany	1.8286	1.8260
Italy	1324.25	1324.50
Japan	147.05	146.10
Mexico	1365.00	1344.00
Switzerland	1.5185	1.5140
U.K.*	1.6303	1.6131

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/2/87) (Adjusted for Inflation)	Change Since Week Ago	2/27/85
	+0.4%	−1.8%

a widespread belief that there are sizable quality differences between imported and domestically-built cars. Many consumers feel that imports are built better and will therefore last longer than American cars. One of the results of this is illustrated in the chart on page 1. It shows the trend in domestic and foreign car sales since early 1978, the recent peak year for domestic auto sales. In the first quarter of 1987, domestic auto sales stood 20 percent below the level reached in the beginning of 1978. On the other hand, imported car sales stood 32 percent higher than they did in early 1978. Interestingly, this rise in imported car sales has occurred in spite of the fact that prices of imports over the same period (1978 to early 1987) climbed 25 percent *more* than domestic car prices.

The auto industry can look forward to further closings of inefficient plants and more worker layoffs, on the one hand, and continued high levels of capital spending, on the other. Employment has already fallen over 22 percent since early 1978. Further staff reductions are in the cards as domestic automakers try to improve their competitiveness in the face of weaker profits and stronger imported car sales. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/24/87	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	223.438	+ 8.278	+33.156
Loans to Depository Inst.	.823	+ .172	+ .039
Float	.799	– .022	+ .028
Total Reserve Bank Credit	240.802	+ 9.036	+33.532
Treasury Deposits with Federal Reserve Banks	14.570	+10.691	+11.142
Currency in Circulation	214.346	– .439	+15.910
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	177.808	– 2.038	+31.849
	6/17/87		
Member Bank Reserves:			
Total Reserves Held	57.995	+ 1.125	+ 8.427
Excess (Deficiency)	.814	– .310	+ .178
Net Free Reserves	.433	+ .106	– .010
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/15/87)	744.8	+ 6.2‡	+ 12.9‡
M2 (May '87)	2,839.9	+ 2.7	+ 7.3
M3 (May '87)	3,555.4	+ 4.2	+ 7.3
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/2/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.69%	5.79%	6.20%
* Federal Agencies	6.53	6.55	6.56
* Municipal Notes—High Grade (34% Taxable Equivalent)	5.45	5.45	5.91
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.79	6.94	7.45

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.40%	Aug.	6.65%
15- 29 days	6.60	Sept.	6.65
30- 59 days	6.70	Oct.	6.65
60- 89 days	6.73	Nov.	6.67
90-179 days	6.78	Dec.	6.70
180-239 days	6.70	Jan.	6.71
240-270 days	6.70		

‡Industrial Paper—Prime			
30- 89 days	6.73%	†Federal Funds	
90-120 days	6.75	Effective Rate	6.65%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,352	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,739	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.8	1.1	3.8
Change in Consumer Prices*	May '87n	3.6% (1)	4.8% (1)	2.4%
Change in Producer Prices*	May '87	3.6%	8.4%	6.0%
Civilian Employment (Thousands of Persons) †	Jun '87n	112,257	112,447	109,613
Unemployment as % of Civilian Labor Force †	Jun '87n	6.1%	6.3%	7.1%
Personal Income*	May '87	$ 3,630	$ 3,622	$ 3,481
Leading Indicators Composite Index (1967=100) †	May '87n	189.3	187.9r	178.5
Industrial Production Index (1977=100) †	May '87	127.8	127.2	124.2
Net Change in Consumer Installment Credit †	Apr '87	$ 2.93	$ 0.32	$ 5.93
U.S. Merchandise Trade Balance	Apr '87	–$ 13.32	–$ 13.63	–$ 14.28
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	May '87	1,620	1,665	1,848
New Construction Expenditures*	May '87n	$ 398.6	$ 397.3r	$ 374.5
Total Business Inventories †	Apr '87	$ 664.3	$ 663.0	$ 655.4
Total Business Sales †	Apr '87	$ 443.6	$ 445.0	$ 422.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Market Access

Placing Power

American National Can Company

a wholly-owned subsidiary of

Triangle Industries, Inc.

$1,000,000,000
Senior Financing

Manufacturers Hanover Trust Company structured, arranged financing and acted as agent for this transaction.

USAir Group, Inc.

$2,000,000,000
Senior Financing

Manufacturers Hanover Trust Company and Manufacturers Hanover Bank (Delaware) structured and arranged financing for this transaction.

Manufacturers Hanover Bank (Delaware) acted as agent for the above financing.

Allied-Lyons North America Corp.

$100,000,000
Commercial Paper Program

Manufacturers Hanover Trust Company acts as Placement Agent for this program.

AB VOLVO

$150,000,000
Euro-Commercial Paper Program

Manufacturers Hanover Limited acts as a Dealer for this program.

Manufacturers Hanover Trust Company acts as Issuing and Paying Agent for this program.

Trans World Music Corp.

$10,000,000
Senior Notes due 1991

Manufacturers Hanover Trust Company arranged the private placement of these Notes.

Alistar Beverages Corporation

[illegible]5,000,000
Senior Secured Notes due 1999

Guaranteed by

Pepsi-Cola Allied Bottlers, Inc.

Manufacturers Hanover Trust Company arranged the private placement of these Notes.

The Investment Banking Group

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 15

Monday, July 20, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Aquaculture Gets A Boost . . .

Aquaculture is a thousand-year-old art that is rapidly being transformed into a "sunrise" industry—and a science. Rising consumer demand for foods with low-fat content is boosting the sale of fish and chicken often at the expense of beef and pork. At the same time, the growing affluence of many countries is allowing more consumers to buy fish which is often more expensive than meat. Yet, because of overfishing and increasing pollution plaguing the world's bodies of water, the fish harvest is not rising nearly as quickly as demand. This has opened a window of opportunity for "aquaculture"—the artificial growing and feeding of fish, crustaceans, mollusks and marine plants in inland or coastal ponds and tanks. What is more, this window is expected to remain wide open, since widespread fish farming is only now beginning, and present trends indicate that the share of fish consumption accounted for by aquaculture could rise from seven percent currently to around 20 percent by the turn of the century.

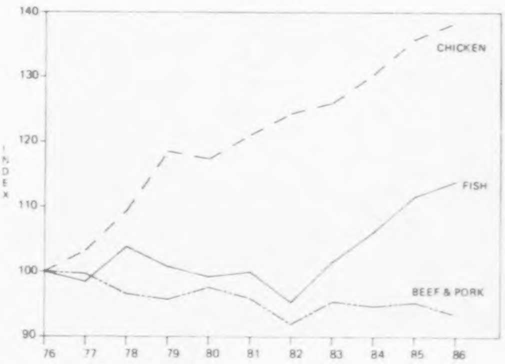
World fish production for human consumption, which accounts for some 70 percent of total fish output, amounted to just about 60 billion metric tons in 1985. This was up 1.5 percent from the previous year and a sizable 22 percent compared with nine years earlier—a compounded 2.2 percent annual growth rate. The other component of world output—fish for nonhuman consumption—is used to produce oils and meals that are eventually turned into animal feeds, perfumes, medicinal preparations and other products.

The fresh fish component of all fish marketed for human consumption has trended downward in recent years, dipping to 25 percent in 1985, compared with nearly 30 percent a decade earlier. As the world's major fish-consuming markets—Japan, the U.S. and Europe—have produced smaller quantities of fish from their own or nearby waters, they have had to import more frozen fish. The proportion of chilled and frozen fish consumed has now climbed to 34 percent from about 30 percent a decade earlier. Cured and canned fish, meanwhile, has remained stable in importance, accounting for about 40 to 42 percent of human consumption in the past decade.

. . . From Limits To Natural Supplies . . .

World fish trade has grown steadily as a result of dwindling production by major consuming nations. In 1985, 35 percent of the global output was traded internationally, up from about 28 percent one decade earlier. In value terms, world fish imports amounted to $18.3 billion in 1985. This was composed of $7 billion for fish in fresh, chilled or frozen forms; $5.9 billion for crustaceans; and more than $5 billion for cured, canned, or manufactured fish and crustaceans for both direct human consumption and other uses.

PER CAPITA CONSUMPTION OF FISH, BEEF, PORK AND CHICKEN
(1976 = 100)



Source: Department of Agriculture

Japan and the U.S. continue to be the world's largest importers. Their import purchases amounted to $4.7 billion and $4.1 billion, respectively, in 1985. Trailing distantly behind were France, Italy, the United Kingdom and Germany. Hong Kong was next, importing a surprisingly large $820 million worth of fish in 1985, most of it probably re-exported to China.

Inadequate domestic production led to large fish trade deficits in 1985 for Japan, at $3.9 billion, and the U.S., at $3.0 billion. The Western European countries had considerably smaller, although still significant, deficits, reaching nearly $700 million for France.

On the export side, Canada led the world in 1985, with overseas sales of fish totaling

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$1.4 billion, followed by the U.S. ($1.1 billion), Denmark, Norway and Japan. South Korea and Thailand, which ranked next and are the only developing countries in the top ten list of fish exporters, sold $800 million and $700 million worth of fish, respectively. Yet, they managed to realize significant fish trade surpluses–about $700 million and $550 million, respectively–since the import bills of these countries, and most other developing countries for that matter, for fish are relatively small.

. . . And Growing Health Concerns

The bright prospects for aquaculture arise from trends in both demand and supply. In the U.S., health concerns have led to an 18 percent rise in annual fish consumption over the last decade, to nearly 15 pounds per person in 1986 (see chart on page 1). However, this was still far below the much higher consumption levels of chicken, at about 60 pounds per person last year, and beef, around 80 pounds per person, but declining.

Some analysts believe that U.S. fish consumption could double to about 30 pounds per person annually by the early 1990s. But, since each additional pound of fish consumed requires the input of nearly three

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/1/87)	162,406	– 4,277	+ 9,888
New York City (7/8/87)	36,914	+ 1,026	+ 3,722
Commercial Paper (7/8/87)	345,212	– 3,613	+ 30,867

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/1/87)	277,838	+ 2,242	+17,832
New York City (7/8/87)	58,819	– 791	+ 2,763

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/1/87)	805,836	+10,980	+62,564
New York City (7/8/87)	173,497	– 7,143	+13,317

Financial Markets

	Friday 7/17/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.70%	– .05	– .13
180-Day Bills†	5.84	+ .19	– .15
Longest Bills†	6.50	+ .02	+ .39
Recent Issues:			
$7\frac{3}{8}$s 6/30/89	7.29	+ .04	
$7\frac{7}{8}$s 6/30/91	7.80	+ .03	
$8\frac{1}{2}$s 5/15/97	8.33	+ .03	
$8\frac{3}{4}$s 5/15/17	8.54	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (7/16/87)	7.66%	– .01	+ .21
Blue List Total ($ Million)	$1,453	+ $ 44	–$ 689
30-Day Visible Supply ($ Million)	$2,284	+ $207	–$4,288
Total	$3,737	+ $251	–$4,977
Corporates:			
Moody's Aa Composite (7/16/87)	9.60%	+ .01	+ .35
30-Day Visible Supply ($ Million)	$5,017	+ $510	+$1,911
Stocks:			
Dow-Jones Averages:			
Industrials	2,510.04	+ 54.05	+732.06
Transportation	1,045.71	+ 10.15	+318.46
Utilities	204.97	– 1.39	+ 4.49
65 Stocks	931.92	+ 13.41	+243.92
N.Y.S.E. Composite Index	176.67	+ 3.10	+ 40.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	192,573	+ 6,427	+42,407

*34% Taxable equivalent 11.61%.

† Bond equivalent.

International Rates

	Friday 7/17/87	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	6.38%	6.44%
1 month	6.63	6.75
3 month	6.75	6.81
6 month	6.94	7.00
1 year	7.25	7.31
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.39%	8.39%
Long Term (10 yrs.)	9.06	9.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/17/87)	Currency Per U.S. $	Week Ago
Canada	1.3192	1.3210
France	6.1670	6.1450
Germany	1.8530	1.8456
Italy	1341.00	1338.00
Japan	152.40	150.70
Mexico	1381.00	1369.00
Switzerland	1.5435	1.5405
U.K.*	1.6165	1.6135

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (7/17/87) (Adjusted for Inflation)	+0.6%	–3.3%

pounds of live fish, just a one pound per person upturn in annual fish consumption would require the harvest of a whopping 700 million more pounds of fish from the ocean at today's population level. Yet, one major U.S. fishery, the waters off New England, yields only about 100 million pounds of haddock and cod each year. To fulfill future demand, more fish must obviously be grown on farms to supplement the scarce supply of marine-caught fish. This is the present challenge, as well as opportunity, for the world aquaculture industry.

It is also the same challenge that molecular biologists are seeking to surmount in a different way—through genetic engineering. Japanese scientists are working hard, for instance, to develop various types of "superfish" that are able to grow larger and faster under cultured or natural environments. That effort, if successful, could be a double-edged sword, however. While it would make fish more abundant, it could, at the same time, give rise to the spectre of potential oversupply—an affliction of many commodity markets. But that's down the road, and until definite breakthroughs are made, the current outlook suggests a strong profit potential for aquaculture. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/15/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	216.922	− 1.074	+20.632
Loans to Depository Inst.	.673	− .045	− .151
Float	.695	− 1.723	+ .399
Total Reserve Bank Credit	234.077	− 2.663	+20.587
Treasury Deposits with Federal Reserve Banks	5.685	+ .820	+ 1.693
Currency in Circulation	217.243	+ .342	+15.676
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	179.371	− 2.111	+28.096
	7/15/87		
Member Bank Reserves:			
Total Reserves Held	58.550	+ 1.055	+ 7.705
Excess (Deficiency)	.428	− 1.144	− .251
Net Borrowed Reserves	.007	+ 1.012	+ .370
		% Change Since 3 Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (7/6/87)	749.9	+ 3.8‡	+ 11.6‡
M2 (June '87)	2,842.8	+ 2.6	+ 6.6
M3 (June '87)	3,570.1	+ 5.3	+ 7.0
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/17/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.56%	5.57%	6.09%
* Federal Agencies	6.38	6.42	6.49
* Municipal Notes—High Grade (34% Taxable Equivalent)	5.76	6.36	6.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.61	6.76	7.24

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.35%	Aug.	6.48%
15- 29 days	6.40	Sep.	6.48
30- 59 days	6.40	Oct.	6.48
60- 89 days	6.40	Nov.	6.53
90-179 days	6.58	Dec.	6.53
180-239 days	6.60	Jan.	6.53
240-270 days	6.60		

‡Industrial Paper—Prime			
30- 89 days	6.52%	†Federal Funds	
90-120 days	6.55	Effective Rate	6.55%

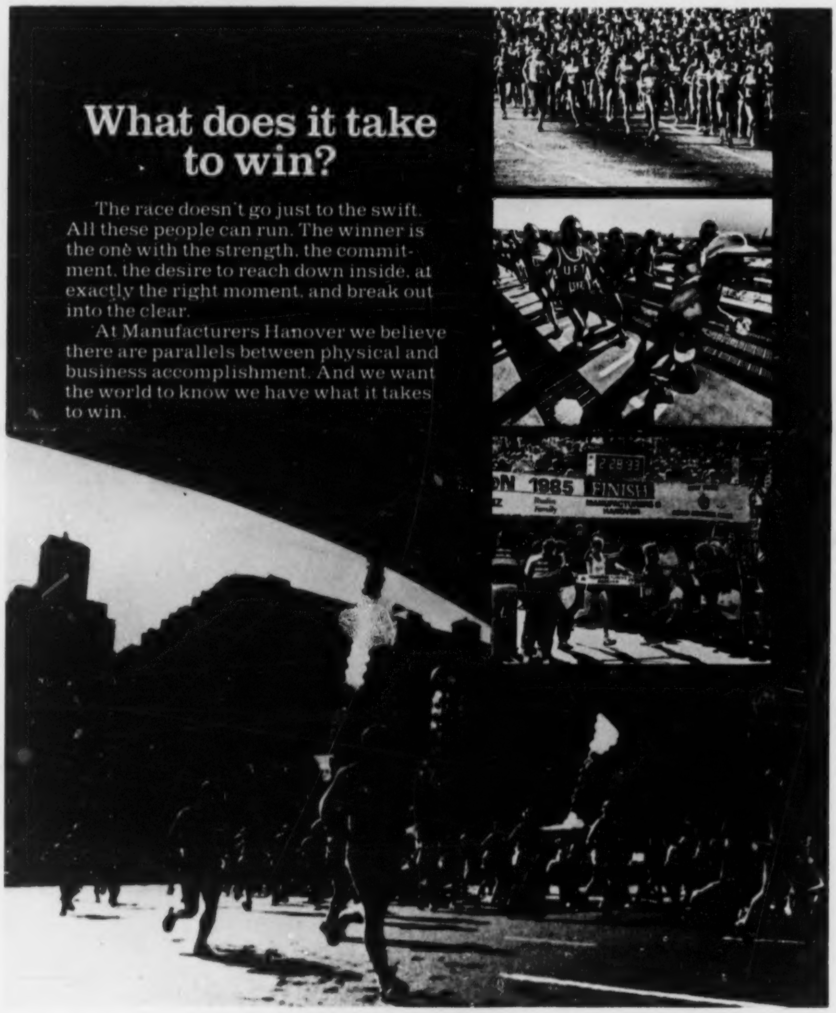
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,352	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,739	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.8	1.1	3.8
Change in Consumer Prices*	May '87	3.6% (1)	4.8% (1)	2.4%
Change in Producer Prices*	Jun '87n	2.4%	3.6%	2.4%
Civilian Employment (Thousands of Persons)†	Jun '87	112,257	112,447	109,613
Unemployment as % of Civilian Labor Force†	Jun '87	6.1%	6.3%	7.1%
Personal Income*	May '87	$ 3,630	$ 3,622	$ 3,481
Leading Indicators Composite Index (1967=100)†	May '87	189.3	187.9	178.5
Industrial Production Index (1977=100) †	Jun '87n	128.2	128.0r	124.2
Net Change in Consumer Installment Credit †	May '87n	−$ 0.56	$ 3.68r	$ 4.24
U.S. Merchandise Trade Balance	May '87n	−$ 14.40	−$ 13.32	−$ 13.13
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	Jun '87n	1,590	1,602r	1,842
New Construction Expenditures*	May '87	$ 398.6	$ 397.3	$ 374.5
Total Business Inventories †	May '87n	$ 670.4	$ 665.9r	$ 652.9r
Total Business Sales †	May '87n	$ 445.2	$ 444.4r	$ 417.5r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.



What does it take to win?

The race doesn't go just to the swift. All these people can run. The winner is the one with the strength, the commitment, the desire to reach down inside, at exactly the right moment, and break out into the clear.

At Manufacturers Hanover we believe there are parallels between physical and business accomplishment. And we want the world to know we have what it takes to win.

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Financial Digest

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 16 Monday, August 3, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Inflation Has Returned . . .

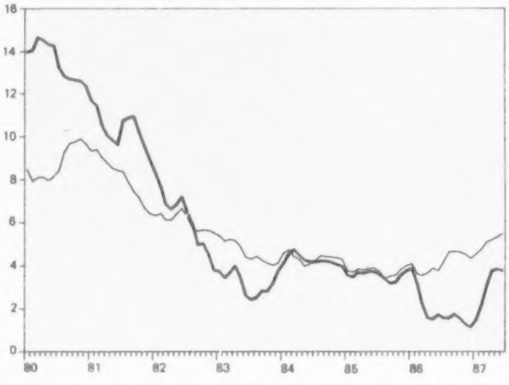
One of the more welcome developments which has accompanied the current economic expansion has been the slowing in the rate of inflation—that is until recently. Over the past six months, the Consumer Price Index (CPI) has risen at a 5½ percent annual rate—2½ times the rate of rise posted in the previous six-month period and 4½ times the increase registered in the 12 months ending December 1986.

During 1986, falling energy prices almost single-handedly held down inflation, and some analysts advance the argument that energy is the sole culprit behind the resurgence of inflation this year. But this is not the case. Even excluding the volatile and much talked about food and energy components, the rate of rise in the "core" CPI is accelerating. During the first half of 1987, the CPI excluding food and energy jumped 4½ percent at an annual rate. This compares with a 3.7 percent increase in the previous six-month period.

Although it is true that rising energy costs are adding to inflation this year, there are many other factors which are responsible as well, one of which is rising labor costs. Since labor costs account for about two-thirds of all business expenses, rising labor costs generally translate pretty quickly into higher wholesale and retail prices. Much has been heard recently about how improving productivity in manufacturing industries helped produce a 1.6 percent drop in unit labor costs in that sector. But this does not tell the whole story, since the manufacturing sector of the economy accounts for only one-quarter of the business "pie." In the nonmanufacturing sector, the other 75 percent, productivity *declined* 1.2 percent in the first quarter of 1987, year over year. This decline in productivity, combined with a 2.1 percent increase in labor costs, led to a 3.3 percent jump in nonmanufacturing unit labor costs, following a 3.1 percent jump for 1986 as a whole.

Since job security is still an important issue, a rapid pick-up in the rate of rise for wage settlements is not likely, near term. However, bargaining could get tougher in some industries. Labor may decide to flex its muscle and try to regain ground lost over the past few years, buoyed by the fact that the civilian unemployment rate, at 6.1 percent, is now at its lowest level in 7½ years.

MH COST OF LIVING INDEX (THIN) VS. CPI (THICK)
(12-MONTH PERCENT CHANGE)



. . . Led By Costlier Imported Goods . . .

Another indicator of a rising trend in inflation is higher-priced imports. With the U.S. dollar down about 30 percent, on average, against our three largest trading partners since its peak in February 1985, it is not surprising that prices of imported goods have risen an average of more than 10 percent at an annual rate over the last three quarters, compared with a drop of about seven percent in the previous three.

Although it is difficult to ascertain the exact portion of a consumer's budget that goes toward the purchase of imported items, a few examples indicate that it is an important factor in consumer inflation. For instance, about 30 percent of all automobiles purchased in the U.S. are imported, an estimated 50 percent of apparel products bought here come from overseas, and more than 80 percent of all shoes purchased in the U.S. are made outside the country. Therefore, this increase in imported goods prices should continue to affect the CPI figures for months to come.

Another barometer of future inflation trends is the Producer Price Index for finished goods (PPI). The PPI mainly covers items

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made by U.S. manufacturers and is one stop short of the retail level. It does not track higher-priced imported items that consumers buy which are included in the CPI. Since the end of 1986, the PPI has risen at a 4.5 percent annual clip, the briskest six-month pace in almost five years. And the recent run-up in prices of intermediate materials excluding food and energy indicates that larger increases may be seen in the PPI down the road. Over the past six months, this intermediate index, which measures the change in the prices of items before they reach the finished-goods stage, has risen at a 3.8 percent annual rate. This is the fastest six-month increase in over three years and the rate of rise has been climbing steadily for more than a year. In fact, a year ago, this index was showing a decline over a six-month period.

. . . And Rising Commodities Prices

Another factor which shows that more inflation could be working its way through the manufacturing sector's distribution channels is the increase in oil and non-oil industrial commodities prices. Late last month, the spot price of West Texas oil topped $22 per barrel—the highest level in 18 months and a 74 percent increase since

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/87)	165,578	+ 88	+ 11,254
New York City (7/22/87)	36,998	+ 88	+ 3,535
Commercial Paper (7/22/87)	354,150	– 935	+ 29,787

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/87)	273,088	– 766	+13,391
New York City (7/22/87)	57,968	– 528	+ 2,418

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/87)	792,670	– 208	+49,285
New York City (7/22/87)	170,641	– 3,585	+13,417

Financial Markets

	Friday 7/31/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	6.22%	+ .34	+ .31
180-Day Bills †	6.41	+ .19	+ .41
Longest Bills †	6.81	+ .10	+ .70
Recent Issues:			
$7\frac{5}{8}$s 7/31/89	7.59	NA	
$7\frac{7}{8}$s 6/30/91	8.09	+ .10	
$8\frac{1}{2}$s 5/15/97	8.63	+ .07	
$8\frac{3}{4}$s 5/15/17	8.88	+ .05	
Municipals:			
Bond Buyer—20 Bond Index* (7/30/87)	7.73%	+ .01	+ .19
Blue List Total ($ Million)	$1,783	+ $276	–$ 493
30-Day Visible Supply ($ Million)	$1,575	– $214	–$3,078
Total	$3,358	+ $ 62	–$3,571
Corporates:			
Moody's Aa Composite (7/30/87)	9.78%	+ .09	+ .47
30-Day Visible Supply ($ Million)	$2,810	– $207	–$ 740
Stocks:			
Dow-Jones Averages:			
Industrials	2,572.07	+ 86.74	+808.43
Transportation	1,076.66	+ 24.24	+363.66
Utilities	201.75	+ 1.84	– 1.53
65 Stocks	951.32	+ 25.96	+268.46
N.Y.S.E. Composite Index	178.64	+ 4.95	+ 43.35
N.Y.S.E. Avg. Daily Vol. for Week (000's)	182,142	+ 11,858	+58,512

*34% Taxable equivalent 11.71%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/31/87	Week Ago
Overnight	6.44%	6.38%
1 month	6.63	6.69
3 month	6.88	6.94
6 month	7.13	7.13
1 year	7.56	7.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.30%	8.30%
Long Term (10 yrs.)	9.04	9.04

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/31/87)	Currency Per U.S. $	Week Ago
Canada	1.3317	1.3327
France	6.1760	6.1790
Germany	1.8552	1.8565
Italy	1344.30	1343.75
Japan	149.55	150.45
Mexico	1419.00	1407.00
Switzerland	1.5375	1.5375
U.K.*	1.5935	1.6035

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/31/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.2%	–2.6%

July 1986. Continuing fears of escalating hostilities in the Persian Gulf and larger than anticipated output cutbacks due to summer maintenance programs in the North Sea oil field are expected to keep prices up in the near term. As for non-oil commodities prices, the Commodity Research Bureau reports that two-thirds of the raw industrial commodities it tracks are experiencing greater price rises in the latest six-month period than during the previous half-year interval; overall, this index is up nearly 25 percent in the past year!

Other measures of inflation are also showing that price increases are accelerating. One of these is the Manufacturers Hanover Cost of Living Index. This index more accurately reflects people's attitudes toward inflation because it excludes the big-ticket items which are purchased infrequently but are included in the CPI every month. More emphasis is placed on smaller items which are bought many times during a month and whose price changes, therefore, have a greater impact on consumers' wallets. Over the past 12 months, the CPI has risen by 3.8 percent but the MH Cost of Living Index has jumped by 5½ percent (see chart on page 1)! ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/29/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	213.075	– 3.085	+20.682
Loans to Depository Inst.	.796	+ .289	+ .050
Float	.564	– .055	– .012
Total Reserve Bank Credit	230.352	– 2.584	+20.579
Treasury Deposits with Federal Reserve Banks	3.872	– 1.444	+ .010
Currency in Circulation	215.462	– .740	+15.731
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	176.935	– 1.507	+25.296
	7/29/87		
Member Bank Reserves:			
Total Reserves Held	57.063	– 1.443	+ 7.125
Excess (Deficiency)	.958	+ .473	– .159
Net Free Reserves	.439	+ .389	– .270

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (7/20/87)	748.3	+ 0.9‡	+ 10.9‡
M2 (June '87)	2,843.2	+ 2.6	+ 6.6
M3 (June '87)	3,570.1	+ 5.3	+ 7.0
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/31/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.09%	6.17%	6.46%
* Federal Agencies	6.55	6.65	6.77
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.36	6.52	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.70	6.95	7.35

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.50%	Sep.	6.54%
15- 29 days	6.50	Oct.	6.54
30- 59 days	6.55	Nov.	6.62
60- 89 days	6.55	Dec.	6.64
90-179 days	6.71	Jan.	6.72
180-239 days	6.65	Feb.	6.72
240-270 days	6.65		

‡Industrial Paper–Prime			
30- 89 days	6.60%	†Federal Funds Effective Rate	6.78%
90-120 days	6.65		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87n	$ 4,449	$ 4,378r	$ 4,212r
Gross National Product (1982 Dollars)*	2nd Q'87n	$ 3,796	$ 3,772r	$ 3,705r
Percent Change, Annual Rate	2nd Q'87n	2.6	4.4r	0.6r
Change in Consumer Prices*	Jun '87n	4.8% (1)	3.6% (1)	4.8%
Change in Producer Prices*	Jun '87	2.4%	3.6%	2.4%
Civilian Employment (Thousands of Persons)†	Jun '87	112,257	112,447	109,613
Unemployment as % of Civilian Labor Force†	Jun '87	6.1%	6.3%	7.1%
Personal Income*	Jun '87n	$ 3,731	$ 3,718r	$ 3,528r
Leading Indicators Composite Index (1967=100)†	Jun '87n	190.4	188.9r	178.3r
Industrial Production Index (1977=100) †	Jun '87	128.2	128.0	124.2
Net Change in Consumer Installment Credit †	May '87	–$ 0.56	$ 3.68	$ 4.24
U.S. Merchandise Trade Balance	May '87	–$ 14.40	–$ 13.32	–$ 13.13
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	Jun '87	1,590	1,602	1,842
New Construction Expenditures*	May '87	$ 398.6	$ 397.3	$ 374.5
Total Business Inventories †	May '87	$ 670.4	$ 665.9	$ 652.9
Total Business Sales †	May '87	$ 445.2	$ 444.4	$ 417.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Performance

This announcement appears as a matter of record only.

American-Italian Pasta Company

a joint venture between

Richard Thompson and
FinPetrini S.p.A.

$22,233,000
13-month construction loan converting to a 5-year term loan

for a

Durum Wheat Mill and
Pasta Production Facility

The CIT Group/Equipment Financing's Project Finance Division structured and provided the financing for the above transaction.

This announcement appears as a matter of record only.

Comdisco, Inc.

$10,000,000
Debt Funding on Lease Transactions

for

Data Processing Equipment

The CIT Group/Equipment Financing's Chicago office provided the financing for the above transactions.

This announcement appears as a matter of record only.

Affiliated Food Stores, Inc.

$8,613,000
Leveraged Lease

for

Tractors and Trailers

The CIT Group/Equipment Financing's Boston office provided the debt financing for the above transaction with American Finance Group, Inc. as lessor.

This announcement appears as a matter of record only.

Appalachian Regional
Healthcare, Inc.

$4,747,000
Loan and Security Agreement

for

Medical Equipment

The CIT Group/Equipment Financing's Cleveland office provided the debt financing for the above leveraged lease with Financial Investments Associates, Inc. as lessor.

This announcement appears as a matter of record only.

Carlisle Construction
Company, Inc.

$4,300,000
Line of Credit

for

Cranes and Excavating
Equipment

The CIT Group/Equipment Financing's Columbus office structured and provided the financing for the above transaction.

This announcement appears as a matter of record only.

Aircraft Trading Center (A.T.C.)

$2,600,000
Loan Agreement

for

Corporate Aircraft

The CIT Group/Equipment Financing's Miami office structured and provided the financing for the above transaction.

Our equipment financing skill.
Demonstrated again.

The CIT Group/Equipment Financing offers you superior performance. No other company can match our demonstrated skill in providing innovative financing that maximizes the value of your assets and makes the best use of your capital.

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MANUFACTURERS
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Financial Digest

Volume XXIV, Number 17

Monday, August 17, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

The Labor Market Continues To Split . . .

July's decline in the civilian unemployment rate to six percent underscores the progressive tightening of the U.S. labor market. Another 304,000 jobs were added to the nation's payrolls last month bringing total civilian employment to a record 112.7 million and raising the civilian employment rate—the proportion of Americans 16 or older holding jobs—to an all-time high of 61.6 percent. Once again, services firms were the major providers of jobs with 82,000 added in July alone, but manufacturing generated 70,000 new payroll slots, about 23 percent of the total new jobs created.

Last month's jump in manufacturing employment came on the heels of job increases in eight of the previous nine months and is an indication that the two-year fall in the dollar has finally stimulated the goods-producing side of the U.S. economy. Perhaps more important was the fact that more of the new jobs are located on the factory floor and not in the administrative front offices. Of July's 70,000 new manufacturing jobs, 61,000 were for production workers. This enabled the unemployment rate in the manufacturing sector to fall from 7.3 percent in October 1986 to six percent last month.

Since the last recession, about 13½ million jobs have been added by U.S. companies. The bulk has been in the trade and services industries: Almost 65 percent of the jobs created in this expansion have come from these two sectors although they account for only 47 percent of total nonfarm employment (see table). The goods-producing side of the economy has not been nearly as prolific. Construction and manufacturing firms have added only 2.2 million jobs since the end of 1982, while the mining industry has actually lost 286,000 positions.

. . . With More Service-Oriented Jobs . . .

These trends have clearly changed the reality, if not the perception, of what Americans do for a living. For instance, the American steelworker has long been a highly visible symbol of the American workforce, but in absolute terms, the steel industry's labor presence is rather small. The number of workers producing steel in the U.S. is about the same as the number of people working in beauty shops. Nondurable goods manufacturers employ 5½ million production workers but that figure is less than the six million Americans working in health care industries. And, in view of the growth of lawsuits in the U.S., it should not be surprising that more people work in legal services than in the entire mining sector!

CHANGES IN THE U.S. LABOR MARKET

(Millions of workers, seasonally adjusted)

	November 1982	July 1987	Absolute change	% of change
Total Nonfarm Employment	88.671	102.115	13.444	100.0
Mining	1.028	.742	–.286	–2.1
Construction	3.843	5.009	1.166	8.7
Manufacturing	18.077	19.098	1.021	7.6
Finance, Insurance & Real Estate	5.356	6.614	1.258	9.4
Transportation & Utilities	5.020	5.344	.324	2.4
Trade	20.383	24.068	3.685	27.4
Services	19.141	24.133	4.992	37.1
Government	15.823	17.107	1.284	9.6

Sources: Bureau of Labor Statistics; MH

The future growth of the U.S. labor market is likely to follow along similar lines. More jobs will be created in such industries as trade, finance and services with fewer positions in manufacturing. The U.S. Department of Labor estimates that by the year 2000 the mix of labor will be even more lopsided. Services and trade will generate about 21 million of the 34 million jobs expected to be created in the next 13 years while manufacturing will lose about 800,000 positions. The Labor Department also projects that the fastest job growth will be in such service-oriented careers as paralegals, medical assistants and computer programmers.

Ironically, while employment has shrunk, the importance of goods production—the combination of manufacturing and mining output—has not varied much in the last few decades. Real goods output as a percent of

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real GNP has actually increased since late 1982, from 41.1 percent to 43.1 percent by the middle of this year. Services' share of GNP, on the other hand, dropped from 49.2 percent to 46.9 percent, while the third component of GNP, construction, maintained a share of about 10 percent during this 4½ year period.

. . . And Fewer in Goods Production

What has allowed manufacturing to increase its importance in the GNP while decreasing its share of the labor market has been the large gains in productivity in our nation's factories. In just the first two quarters of 1987, the manufacturing sector improved output by annualized rates of three percent and 3.3 percent, respectively. This is in sharp contrast with nonfarm businesses excluding manufacturing. Companies in these industries saw productivity increase at a miniscule annual rate of 0.9 percent in the second quarter after falling 0.5 percent in the first quarter on top of consecutive drops in the previous three quarters of 1986. In fact, while manufacturing has increased productivity by almost a third since 1977, the rest of the private nonfarm economy has experienced about a two percent *drop* in output per man-hour.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/87)	164,839	– 71	+ 9,630
New York City (8/5/87)	37,516	+ 668	+ 4,036
Commercial Paper (8/5/87)	345,127	– 2,762	+ 27,254

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/87)	269,639	– 1,776	+10,982
New York City (8/5/87)	56,935	– 208	+ 363

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/87)	788,974	+ 2,514	+49,492
New York City (8/5/87)	172,270	– 1,462	+14,337

Financial Markets

	Friday 8/14/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	6.11%	+ .09	+ .41
180-Day Bills †	6.29	– .10	+ .53
Longest Bills †	6.84	– .05	+ .91
Recent Issues:			
$7^5/8$s 7/31/89	7.57	– .05	
$7^7/8$s 6/30/91	8.03	– .11	
$8^5/8$s 8/15/97	8.58	NA	
$8^7/8$s 8/15/17	8.79	NA	
Municipals:			
Bond Buyer–20 Bond Index* (8/13/87)	7.76%	– .10	+ .43
Blue List Total ($ Million)	$1,534	– $ 241	–$ 734
30-Day Visible Supply ($ Million)	$2,798	+ $1,306	–$ 384
Total	$4,332	+ $1,065	–$1,118
Corporates:			
Moody's Aa Composite (8/13/87)	9.85%	–0–	+ .62
30-Day Visible Supply ($ Million)	$2,558	+ $ 603	+$ 337
Stocks:			
Dow-Jones Averages:			
Industrials	2,685.43	+ 93.43	+829.83
Transportation	1,101.16	+ 18.31	+345.16
Utilities	213.79	+ 9.25	+ 2.55
65 Stocks	989.08	+ 30.24	+270.60
N.Y.S.E. Composite Index	186.69	+ 5.82	+ 44.47
N.Y.S.E. Avg. Daily Vol. for Week (000's)	223,011	+ 28,533	+90,681

*34% Taxable equivalent 11.76%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/14/87	Week Ago
Overnight	6.44%	6.44%
1 month	6.63	6.69
3 month	6.88	6.94
6 month	7.13	7.19
1 year	7.50	7.69
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.65%	8.30%
Long Term (10 yrs.)	9.42	9.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/14/87)	Currency Per U.S. $	Week Ago
Canada	1.3315	1.3257
France	6.2080	6.2750
Germany	1.8790	1.8845
Italy	1361.50	1368.00
Japan	150.70	151.35
Mexico	1454.00	1449.00
Switzerland	1.5620	1.5645
U.K.*	1.5850	1.5695

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (8/14/87) (Adjusted for Inflation)	–0.2%	–1.9%

These recent developments in the U.S. labor markets are not without long-run implications. First, the jobs that will be created during the rest of this century will require more technical and educational skills than those demanded by entry-level positions of previous years. The growth in jobs needing medical and computer knowledge will demand workers with more years of schooling, especially in college and beyond. But at the same time, growth in the working-age U.S. population will taper off significantly, shrinking the pool of available workers and limiting the requirements employers can place on job applicants.

Secondly, the poor productivity performance of the service sector is worrisome. Manufacturing learned the hard way that market share, either domestically or worldwide, is lost when costs run too high. Unless the service industries can improve their output relative to the increased costs of new employees, the U.S. may lose its price-competitiveness in services exports which currently account for 25 percent of all our exports. For while the U.S. is still preeminent in the exporting of services such as banking and engineering, increased competition is already being exerted by Japan and other countries. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	8/12/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	214.299	– 1.645	+20.892
Loans to Depository Inst.	.571	+ .014	– .241
Float	.440	– .158	+ .006
Total Reserve Bank Credit	231.522	– 1.591	+20.123
Treasury Deposits with Federal Reserve Banks	3.106	– 2.155	– .589
Currency in Circulation	217.322	+ 1.093	+15.849
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	176.490	– 2.480	+20.999
	8/12/87		
Member Bank Reserves:			
Total Reserves Held	57.399	+ .319	+ 6.897
Excess (Deficiency)	.725	– .285	+ .140
Net Free Reserves	.281	– .210	+ .082
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (8/3/87)	751.8	– 1.9‡	+ 10.5‡
M2 (July '87)	2,847.9	+ 1.4	+ 5.7
M3 (July '87)	3,574.4	+ 4.0	+ 6.1
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving avarage.

New York Money Market

Offering Rates 8/14/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.97%	6.08%	6.84%
* Federal Agencies	6.55	6.55	6.68
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.70	7.01	7.35

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.40%	Sep.	6.60%
15- 29 days	6.45	Oct.	6.65
30- 59 days	6.55	Nov.	6.70
60- 89 days	6.60	Dec.	6.75
90-179 days	6.65	Jan.	6.85
180-239 days	6.65	Feb.	6.85
240-270 days	6.65		

‡Industrial Paper—Prime			
30- 89 days	6.62%	†Federal Funds	
90-120 days	6.67	Effective Rate	6.70%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,449	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,796	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.6	4.4	0.6
Change in Consumer Prices*	Jun '87	4.8% (1)	3.6% (1)	4.8%
Change in Producer Prices*	Jul '87n	2.4%	2.4%	– 9.6%
Civilian Employment (Thousands of Persons)†	Jul '87n	112,727	112,257	109,887
Unemployment as % of Civilian Labor Force†	Jul '87n	6.0%	6.1%	7.0%
Personal Income*	Jun '87	$ 3,731	$ 3,718	$ 3,528
Leading Indicators Composite Index (1967=100)†	Jun '87	190.4	188.9	178.3
Industrial Production Index (1977=100) †	Jul '87n	129.8	128.8r	124.9
Net Change in Consumer Installment Credit †	Jun '87n	$ 3.46	–$ 0.32r	$ 5.01
U.S. Merchandise Trade Balance	Jun '87n	–$ 15.71	–$ 14.04r	–$ 13.25
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	Jun '87	1,590	1,602	1,842
New Construction Expenditures*	Jun '87n	$ 390.1	$ 394.3r	$ 371.6
Total Business Inventories †	Jun '87n	$ 674.2	$ 671.6r	$ 654.1
Total Business Sales †	Jun '87n	$ 453.1	$ 446.3r	$ 422.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 18

Monday, August 31, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover
Economics Department
17/270

The Federal Reserve . . .

As summer draws to a close in the northern hemisphere, the seasons may not be the only thing about to shift gears. So, too, may monetary policy, if recent trends in the economy, the labor and commodity markets and the dollar persist. This is because with the pace of business picking up, the labor market tightening as nearly full employment approaches (Financial Digest–August 17, 1987), industrial commodity prices rising and the dollar softening in the foreign exchange markets, several key harbingers of an adverse swing in inflation expectations, if not the inflation rate itself, are again appearing on the economic horizon. If they persist, and upcoming business statistics confirm the economic acceleration, prospects for a modest policy tightening in coming weeks will grow.

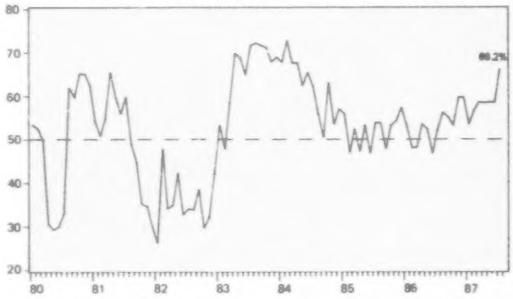
To be sure, the usual degree of uncertainty surrounds the question of just how well the economy is doing. But the release of several upbeat business statistics in recent months has shifted the burden of proof away from those who believe that the economy has been expanding at a generally acceptable clip, to those who think it is only "muddling through." For despite the fact that progress in reducing the nation's trade deficit continues at a snail's pace, and the trade imbalance remains a heavy drag on economic activity, the overall tone of business in general, and in the goods-producing sector in particular, seems to be improving.

For example, strong gains in personal consumption expenditures, industrial production and capacity utilization rates, all in July, are just some of the latest indications of the economy's added zest. Since they come on the heels of hefty upward revisions to the initially-reported numbers for such June statistics as retail sales and industrial production, it looks like the economy is, and has been, performing much better than originally thought. What is more, since non-defense capital goods orders and manufacturers backlogs are expanding at a rapid clip, industrial production, already rebounding from its 1985-86 lethargy, should remain robust for some time.

. . . May Soon Decide . . .

Perhaps the most telling indication of today's improved business climate is the sharp jump in the number of people working, especially in the manufacturing industries. Turning again to July, more than 300,000 net new jobs were generated economy-wide–nearly four times the preceding six-month average–while the unemployment rate fell to a nearly eight-year low of six percent. Manufacturing employment soared by some 70,000, reversing just about 60 percent of the 117,000 manufacturing jobs lost in all of 1986. Not surprisingly, with industrial production rebounding and factories again hiring, some two-thirds of all manufacturing industries surveyed by the Commerce Department are now reporting payroll gains, the highest percentage in over three years (see chart).

PERCENT OF INDUSTRIES REPORTING PAYROLL GAINS



Source: Commerce Department

If there is a drawback to all this, it's on the price front. This is because at some point too much economic vigor could produce such unwanted side effects as capacity constraints, sharply escalating wages and, eventually, higher rates of inflation. Although some might think the chances of this occurring anytime soon are slim, citing as evidence the subdued rise of both consumer and producer prices in July, the fact remains that consumer prices have increased at a five percent annual clip so far this year, while producer prices, even excluding volatile food and energy costs, are increasing at their fastest rate since 1981.

What is more, industrial commodity prices, often viewed as a harbinger of future price trends, continue to advance briskly. Over the

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past three months, for example, they have increased at a nearly 15 percent annual rate. Over the past year, they are up by better than 35 percent, and are now back to just about where they stood at their early 1984 highs. If such price trends are left unchecked, wages may soon begin to play catch-up, setting the stage for a wage-price spiral which everyone—especially central bank policymakers—wants to avoid.

. . . To Tighten Monetary Policy

If this isn't disturbing enough, two other recent developments are adding to inflation concerns. One is the renewed slump of the dollar in the foreign exchange markets; the other is the likelihood of a larger Federal budget deficit in fiscal 1988. Of more immediate importance, a back-to-back monthly widening of the trade deficit in May and June is prompting another bout of periodic dollar weakness—threatening to propel import prices even higher and to dampen the appetite of foreign investors for U.S. dollar denominated assets.

This, in turn, could spell trouble for the credit markets in the months ahead, espe-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/12/87)	164,238	– 440	+ 9,945
New York City (8/19/87)	37,081	+ 225	+ 3,707
Commercial Paper (8/19/87)	346,079	+ 127	+ 23,895

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/12/87)	269,748	+ 109	+13,436
New York City (8/19/87)	56,527	– 26	+ 588

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/12/87)	788,826	– 208	+50,890
New York City (8/19/87)	172,102	– 174	+17,082

Financial Markets

	Friday 8/28/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.48%	+ .21	+ 1.31
180-Day Bills†	6.62	+ .10	+ 1.43
Longest Bills†	7.17	+ .21	+ 1.93
Recent Issues:			
$7\frac{3}{4}$s 8/15/87	7.96	+ .25	
$7\frac{7}{8}$s 6/30/91	8.24	+ .06	
$8\frac{5}{8}$s 8/15/97	9.01	+ .26	
$8\frac{7}{8}$s 8/15/17	9.18	+ .21	
Municipals:			
Bond Buyer—20 Bond Index* (8/27/87)	7.80%	– .01	+ .87
Blue List Total ($ Million)	$1,772	+ $ 210	+$ 140
30-Day Visible Supply ($ Million)	$ 984	– $2,137	–$ 24
Total	$2,756	– $1,927	+$ 116
Corporates:			
Moody's Aa Composite (8/27/87)	9.89%	–0–	+ .72
30-Day Visible Supply ($ Million)	$4,487	+ $ 94	+$3,256
Stocks:			
Dow-Jones Averages:			
Industrials	2,639.35	– 70.15	+741.01
Transportation	1,062.04	– 24.63	+289.91
Utilities	205.01	– 5.58	– 14.14
65 Stocks	963.88	– 24.76	+227.51
N.Y.S.E. Composite Index	182.99	– 4.51	+ 37.67
N.Y.S.E. Avg. Daily Vol. for Week (000's)	175,814	– 8,896	+44,712

*34% Taxable equivalent 11.82%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/28/87	Week Ago
Overnight	6.88%	6.38%
1 month	7.00	6.69
3 month	7.06	6.94
6 month	7.31	7.19
1 year	7.81	7.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/28/87)	Currency Per U.S. $	Week Ago
Canada	1.3211	1.3268
France	6.0660	6.0940
Germany	1.8165	1.8235
Italy	1315.75	1320.75
Japan	142.65	143.07
Mexico	1500.00	1481.00
Switzerland	1.4965	1.5095
U.K.*	1.6260	1.6252

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/28/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	–3.0%

cially since they will almost certainly be called upon to finance a much larger Federal deficit in the fiscal year beginning October 1. Although the red ink may be trimmed by as much as $60 billion in the current fiscal year, largely due to such transitory factors as a one-time surge in capital gains receipts due to tax reform and asset sales, the fiscal 1988 outlook isn't nearly as good. With the Administration and Congress unable to hammer out a credible deficit reduction program, the budget shortfall may rise from some $160 billion this fiscal year to at least $175 billion next year.

Against this backdrop, near-term economic and price trends may be more thoroughly analyzed than usual. If they reinforce the view that the economy is strengthening and the labor market tightening, the Federal Open Market Committee may opt to tighten policy somewhat at its late September meeting. This could diminish the likelihood of the economy "overheating," curb inflation expectations and bolster the dollar, not to mention send a message to any doubters of Fed Chairman Greenspan's inflation-fighting commitment. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/28/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	214.137	+ .651	+20.495
Loans to Depository Inst.	.912	+ .387	+ .025
Float	.525	– .356	– .208
Total Reserve Bank Credit	230.982	+ .015	+20.292
Treasury Deposits with Federal Reserve Banks	3.116	– .058	– .168
Currency in Circulation	216.570	– .787	+15.970
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	182.077	+ 2.602	+26.786
	8/26/87		
Member Bank Reserves:			
Total Reserves Held	57.281	– .058	+ 6.785
Excess (Deficiency)	1.145	+ .352	+ .278
Net Free Reserves	.554	+ .205	+ .082
		% Change Since 3 Months Ago*	**% Change Since Year Ago**
Monetary Aggregates †			
M1 (8/17/87)	750.7	– 1.6‡	+ 9.9‡
M2 (July '87)	2,846.0	+ 1.1	+ 5.7
M3 (July '87)	3,572.5	+ 3.8	+ 6.1
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/28/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.30%	6.36%	6.76%
* Federal Agencies	6.70	6.80	6.93
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.21	6.52	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.93	7.20	7.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.65%	Sep.	6.80%
15- 29 days	6.63	Oct.	6.80
30- 59 days	6.70	Nov.	6.90
60- 89 days	6.70	Dec.	6.90
90-179 days	6.74	Jan.	6.90
180-239 days	6.65	Feb.	6.90
240-270 days	6.65		

‡Industrial Paper—Prime			
30- 89 days	6.69%	†Federal Funds	
90-120 days	6.85	Effective Rate	6.85%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,448r	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,794r	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.4r	4.4	0.6
Change in Consumer Prices*	Jul '87n	2.4% (1)	4.8% (1)	0.0%
Change in Producer Prices*	Jul '87	2.4%	2.4%	– 9.6%
Civilian Employment (Thousands of Persons)†	Jul '87	112,727	112,257	109,887
Unemployment as % of Civilian Labor Force†	Jul '87	6.0%	6.1%	7.0%
Personal Income*	Jul '87n	$ 3,738	$ 3,723r	$ 3,540
Leading Indicators Composite Index (1967=100)†	Jun '87	190.4	188.9	178.3
Industrial Production Index (1977=100) †	Jul '87	129.8	128.8	124.9
Net Change in Consumer Installment Credit †	Jun '87	$ 3.46	–$ 0.32	$ 5.01
U.S. Merchandise Trade Balance	Jun '87	–$ 15.71	–$ 14.04	–$ 13.25
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(c)	$374.55
Private Housing Starts (Thousands of Units)*	Jul '87n	1,611	1,597r	1,786
New Construction Expenditures*	Jun '87	$ 390.1	$ 394.3	$ 371.6
Total Business Inventories †	Jun '87	$ 674.2	$ 671.6	$ 654.1
Total Business Sales †	Jun '87	$ 453.1	$ 446.3	$ 422.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Financial
Digest

9/16/87 85350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 19

Monday, September 14, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

U.S. Exports Lead The Way . . .

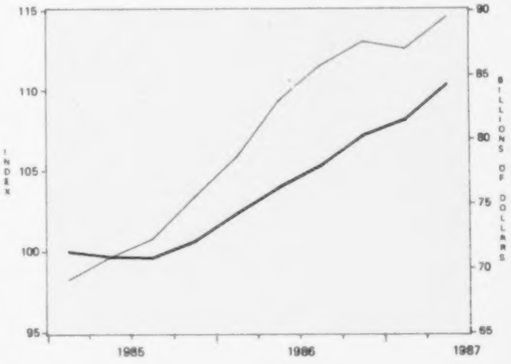
The 0.5 percent advance in the government's index of leading indicators for July is a further sign of the improving fortunes of the goods-producing sector of the U.S. economy. The sharp turnaround in the manufacturing sector, in particular, is due principally to improved export performance by U.S. industry which, in turn, can be traced to the drop in the external value of the dollar vis-a-vis the currencies of many of our major trading partners. In the first six months of this year, the volume of merchandise exports rose at a 12 percent annual rate. And early indications are that August's figures will be even better. The latest survey of purchasing managers indicates that production in August was exceptionally strong as were new orders and employment. The manufacturing sector has clearly improved substantially in the past year and is now one of the leading sources of growth in this economy, helping to take up the slack left by the easing of domestic consumption.

Unfortunately, the improved export performance has not been apparent in the dollar-denominated U.S. external accounts. This is because the rising volume of U.S. exports is reported in depreciated dollars but the sharp rise in import prices due to the depreciated dollar and the increase in import volume have combined to cause nominal imports to rise (see chart). Thus, the trade deficit has expanded in spite of improved exports.

Both the value and volume of imports substantially exceed the value and volume of exports. Consequently, it may be some time before improved U.S. exports of manufactures as well as of other products will make a substantial dent in the trade deficit. For one thing, although the dollar has plunged against the currencies of some of our major trading partners, in other cases there has been little change in the exchange rate. Several Asian countries which export heavily to the U.S. tie their currencies to the dollar which insulates their exports from the effects of foreign exchange fluctuations.

Further, many exporters to the U.S. have reduced profit margins to keep down the dollar prices of their goods. With the U.S. growing more rapidly than most other industrial countries whose economies are in the doldrums, the attractive U.S. market offers every incentive for these countries to export to us on competitive terms.

NON-OIL IMPORT PRICE INDEX <1985 1Q=100> (THICK) VS
NON-OIL IMPORTS <BILLIONS OF DOLLARS> (THIN)



. . . To A Brighter Manufacturing Sector

But the decline in the dollar's value relative to many of the most important trading currencies has clearly made U.S. exports more attractive—particularly manufactured goods. Between June 1986 and July 1987, industrial production grew faster than the U.S. economy as a whole. Clearly, much of the stimulus for increased production came from abroad, since domestic demand has been soft of late.

The increase in foreign demand for U.S.-manufactured goods has had a widespread impact on the American economy. Industrial production, for example, rose a healthy 0.8 percent in July, and upward revisions in the data for May and June suggest that this was not an isolated event. In recent months, improved production has been evident throughout a range of industries with particular strength in the capital goods area. Both durable and non-durable goods' production have gained strongly; durable goods production jumped at an annual rate of 6.2 percent in the last three months, while non-durables went up 7.7 percent. Unfilled orders for durable goods rose by 1.4 percent in July—the fifth straight month of increases in this important indicator of potential eco-

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nomic strength. Areas of strength included transportation equipment (mainly aircraft and parts), electrical machinery and primary metals, and orders for non-defense capital goods (an omen for the future) increased by 5.1 percent in July over June's performance.

Reflecting the widespread improvement in the goods-producing sector as a whole, the rate of capacity utilization reached 80.5 percent in July, with manufacturing capacity utilization reaching 81 percent. In the areas of textiles, paper and rubber and plastics, the capacity utilization rate exceeded 90 percent—approaching the levels at which bottlenecks and delivery delays begin to affect adversely economic growth.

Employment data also highlight the improving trends in the goods-producing industries. In August, non-agricultural payrolls rose by 156,000 after a 296,000 jump in July, contributing to an increase of two million jobs in the past year. Although manufacturing payrolls held steady in August, such employment enjoyed a sizable increase of 91,000 in July. Further, improved efficiency and cost control as the manufacturing sector

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/87)	164,243	– 95	+ 7,227
New York City (9/2/87)	37,178	+ 247	+ 4,570
Commercial Paper (9/2/87)	348,849	+ 4,536	+ 26,984

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/87)	268,906	– 233	+ 9,741
New York City (9/2/87)	57,229	+ 814	– 423

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/87)	792,068	+ 3,090	+49,456
New York City (9/2/87)	178,361	+ 2,681	+17,569

Financial Markets

	Friday 9/11/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	6.54%	– .03	+ 1.26
180-Day Bills †	6.76	– .07	+ 1.18
Longest Bills †	7.60	+ .01	+ 1.87
Recent Issues:			
7¾s 8/31/89	8.27	+ .07	
7⅞s 6/30/91	8.71	+ .04	
8⅝s 8/15/97	9.32	+ .03	
8⅞s 8/15/17	9.50	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (9/10/87)	8.38%	+ .33	+ .58
Blue List Total ($ Million)	$1,530	– $323	– $242
30-Day Visible Supply ($ Million)	$1,803	+ $450	+ $819
Total	$3,333	+ $127	+ $577
Corporates:			
Moody's Aa Composite (9/10/87)	10.33%	+ .23	+ .44
30-Day Visible Supply ($ Million)	$6,589	– $453	+$4,706
Stocks:			
Dow-Jones Averages:			
Industrials	2,608.74	+ 47.36	+850.02
Transportation	1,032.53	+ 9.08	+293.15
Utilities	199.92	– 1.60	+ 1.14
65 Stocks	946.65	+ 11.64	+261.36
N.Y.S.E. Composite Index	180.02	+ 2.44	+ 47.21
N.Y.S.E. Avg. Daily Vol. for Week (000's)	191,136	+ 20,442	+ 8,944

*34% Taxable equivalent 12.70%.

† Bond equivalent.

International Rates

	Friday 9/11/87	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	6.94%	6.69%
1 month	7.38	7.19
3 month	7.50	7.31
6 month	7.94	7.75
1 year	8.50	8.31
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/11/87)	Currency Per U.S. $	Week Ago
Canada	1.3173	1.3153
France	6.0010	6.0170
Germany	1.7925	1.7979
Italy	1299.75	1303.75
Japan	141.40	141.73
Mexico	1523.00	1516.00
Switzerland	1.4825	1.4885
U.K.*	1.6580	1.6535

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (9/11/87) (Adjusted for Inflation)	–1.3%	–4.5%

emerged from the difficulties of the early 1980s is now paying off. Unit labor costs, for example, rose only at a 2.4 percent annual rate in the second quarter although prices increased at a 4.3 percent rate. The current external value of the dollar has allowed U.S. producers to increase prices modestly while still keeping them lower than prices for competing imports. Indeed, prices for non-energy imports have risen twice as fast as export prices.

But Some Problem Industries Remain

But the improved fortunes of the goods-producing sector, particularly manufacturing, do not prove that this sector is experiencing a renaissance. Many important industries, such as the steel and the auto producers, remain in the doldrums or worse. With projected economic growth for the U.S. and for our major trading partners modest at best for 1987 and 1988, the prospects for a strong and sustained revival in U.S. manufacturing and in U.S. exports of manufactured goods are questionable. Yet it is clear that a vigorous and competitive goods-producing sector is necessary for a strong U.S. economy. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	9/9/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	217.532	+ 2.582	+22.309
Loans to Depository Inst.	.748	+ .202	− .503
Float	.877	+ .366	+ .015
Total Reserve Bank Credit	234.885	+ 3.240	+21.400
Treasury Deposits with Federal Reserve Banks	3.698	+ .202	+ .274
Currency in Circulation	218.336	+ 1.751	+15.825
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	183.882	+ .583	+24.683
	9/9/87		
Member Bank Reserves:			
Total Reserves Held	57.760	+ .450	+ 6.310
Excess (Deficiency)	1.188	+ .015	+ .395
Net Free Reserves	.714	+ .132	+ .440
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (8/31/87)	750.7	− 1.8‡	+ 9.0‡
M2 (August '87)	2,860.1	+ 3.0	+ 5.2
M3 (August '87)	3,593.8	+ 4.7	+ 5.8
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/11/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.36%	6.46%	7.14%
* Federal Agencies	7.30	7.60	7.45
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.20	7.58	8.18
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.43	7.83	8.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.15%	Oct.	7.30%
15- 29 days	7.30	Nov.	7.32
30- 59 days	7.30	Dec.	7.34
60- 89 days	7.38	Jan.	7.55
90-179 days	7.29	Feb.	7.55
180-239 days	7.20	Mar.	7.55
240-270 days	7.20		

‡Industrial Paper—Prime			
30- 89 days	7.33%	†Federal Funds	
90-120 days	7.40	Effective Rate	7.15%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,448	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,794	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.3	4.4	0.6
Change in Consumer Prices*	Jul '87	2.4% (1)	4.8% (1)	0.0%
Change in Producer Prices*	Aug '87n	0.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '87n	113,081	112,727	110,067
Unemployment as % of Civilian Labor Force†	Aug '87n	6.0%	6.0%	6.8%
Personal Income*	Jul '87	$ 3,738	$ 3,723	$ 3,540
Leading Indicators Composite Index (1967=100)†	Jul '87n	191.8	190.8r	179.9
Industrial Production Index (1977=100) †	Jul '87	129.8	128.8	124.9
Net Change in Consumer Installment Credit †	Jul '87n	$ 3.46	$ 4.55r	$ 6.28
U.S. Merchandise Trade Balance	Jul '87n	−$ 16.47	−$ 15.71	−$ 16.05
Plant and Equipment Expenditures*	4th Q'87n	$406.37(a)	$398.04(a)r	$388.69
Private Housing Starts (Thousands of Units)*	Jul '87	1,611	1,597	1,786
New Construction Expenditures*	Jul '87n	$ 391.8	$ 392.4	$ 391.0
Total Business Inventories †	Jun '87	$ 674.2	$ 671.6	$ 654.1
Total Business Sales †	Jun '87	$ 453.1	$ 446.3	$ 422.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Senior Financing

Manufacturers Hanover Trust Company and Manufacturers Hanover Bank (Delaware) structured and arranged financing for this transaction.

Manufacturers Hanover Bank (Delaware) acted as agent for the above financing.

Allied-Lyons North America Corp.

$100,000,000
Commercial Paper Program

Manufacturers Hanover Trust Company acts as Placement Agent for this program.

AB VOLVO

$150,000,000
Euro-Commercial Paper Program

Manufacturers Hanover Limited acts as a Dealer for this program.

Manufacturers Hanover Trust Company acts as Issuing and Paying Agent for this program.

Trans World Music Corp.

$10,000,000
Senior Notes due 1991

Manufacturers Hanover Trust Company arranged the private placement of these Notes.

Alistar Beverages Corporation

$55,000,000
Senior Secured Notes due 1999

Guaranteed by

Pepsi-Cola Allied Bottlers, Inc.

Manufacturers Hanover Trust Company arranged the private placement of these Notes.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 20

Monday, September 28, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Housing Struggles Through 1987 . . .

Dark clouds have been gathering over the housing sector through most of 1987, but the outlook has become even more ominous with the announcement that homebuilding in August was at its lowest rate since April 1983. With new home starts running at an annual rate of only 1.68 million units for the first eight months of this year–11 percent below 1986's comparable period–1987 could be housing's worst year since it hit bottom in the 1981-82 recession. Indeed, in the recent upward revision to the second-quarter gross national product, the important residential investment component was conspicuously absent as a contributor to top-line growth: The sector was revised down by $300 million to an inflation-adjusted annual rate of $196.8 billion.

August's 12.1 percent fall in starts, on a year-over-year basis, affected all sectors of the industry. The loss of tax write-offs for speculative building and vacation homes was partially responsible for the 21 percent drop in multi-unit projects, but even single-family starts were down by seven percent last month, year over year. The Northeast suffered the largest regional drop in construction. Starts there fell by 23 percent in the 12 months ending in August, followed by an 11 percent slump in the South, the area where 40 percent of all new U.S. housing is built.

Manufacturers Hanover
Economics Department
17/270

Home sales have also dropped this year. After reaching a record rate of 900,000 units in March 1986, new single-family home sales have fallen off dramatically. From May through July of this year, new home sales averaged a seasonally adjusted annual rate of less than 650,000 units. Existing homes fared slightly better. Sales in July were two percent above the previous July's, but in general, existing home sales peaked at the end of 1986 and have since tapered off.

Part of the blame for housing's slump can be placed on the recent rise in mortgage rates. However, these rates are still below their levels of early last year–when new home sales averaged 734,000 units at an annual rate. Another explanation of housing's dilemma may lie in the classic economic tenet of supply and demand. Just as supply must relate to demand, the quantity demanded is contingent on price. And in this area, at least, housing has seen rapid growth.

The average price of a new single-family home bought in July was $129,200, 10.6 percent above the price in July 1986. Existing homes commanded a record $108,600 in June, an increase of 6.4 percent over last year. By comparison, during the same 12-month period the total consumer price index rose four percent and disposable personal income, 4.7 percent.

. . . As Prices And Mortgage Rates Rise . . .

A result of this runup in home prices has been a continued rise in monthly mortgage payments, although at a slower pace than in previous years. Consequently, fewer households can afford to purchase a home. It is estimated that in July less than a third of American households were financially equipped to take on a new mortgage compared with 40 percent at the end of 1986.

Regionally, average mortgage payments in July ranged from a high of $1,096 in Honolulu to a low of $540 in Louisville, KY. Besides Honolulu, five other metropolitan areas had average monthly payments exceeding $1,000. For home prices, Boston led the way at $183,300 for a financed home, followed closely by the San Francisco area ($179,900) and the New York City region ($177,300).

How long home prices can continue their rapid ascent is a critical question in determining the outlook for the housing industry. Already, home prices for both new and existing homes have begun to fall in some areas. The Federal Home Loan Bank Board reports that in 11 of 30 cities surveyed, home prices in July 1987 were below those of July 1986. Still, housing starts for 1987 as a whole should come in at around 1.7 million units, a seven percent drop from 1986–and a harbinger of ill for the downstream industries that depend on this sector.

Two industries that have already been

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adversely affected by the slowdown in housing activity are the household appliance and home furnishings industries. In August, the dollar value of retail sales for these items fell a whopping 1.5 percent month-over-month, after dropping in five of the preceding seven months.

. . . Hurting Downstream Industries

The Association of Home Appliance Manufacturers estimates that about 30 percent of all appliances sold are placed in new or resold homes. So with housing starts and sales of existing homes slowing, the outlook for the household appliance industry is starting to lose some of its luster. Even replacement demand, which had been propelling sales since the current business expansion began, has slowed from the breakneck pace of the 1983-86 period when pent-up demand was strong.

After three years of record shipments and four years of sizzling sales growth, purchases of appliances are finally slowing. In the January-July period of this year, retail sales of household appliances increased only 1.9 percent compared with the same period a year ago. In the previous four years, the average increase for the same seven-month

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/9/87)	162,877	– 978	+ 7,092
New York City (9/16/87)	37,312	+ 545	+ 4,385
Commercial Paper (9/16/87)	354,249	+ 2,519	+ 25,018

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/9/87)	269,490	+ 15	+10,422
New York City (9/16/87)	58,233	+ 843	+ 756

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/9/87)	794,243	– 2,458	+47,630
New York City (9/16/87)	178,668	+ 3,840	+17,766

Financial Markets

	Friday 9/25/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.68%	+ .09	+ 1.33
180-Day Bills†	7.19	+ .18	+ 1.62
Longest Bills†	7.71	+ .16	+ 1.94
Recent Issues:			
$7\frac{3}{4}$s 8/31/89	8.42	+ .18	
$7\frac{7}{8}$s 6/30/91	8.92	+ .20	
$8\frac{5}{8}$s 8/15/97	9.53	+ .16	
$8\frac{7}{8}$s 8/15/17	9.68	+ .13	
Municipals:			
Bond Buyer–20 Bond Index* (9/24/87)	8.30%	– .02	+ 1.15
Blue List Total ($ Million)	$1,540	+ $ 71	– $107
30-Day Visible Supply ($ Million)	$1,808	+ $ 153	– $247
Total	$3,348	+ $ 224	– $354
Corporates:			
Moody's Aa Composite (9/24/87)	10.42%	– .04	+ 1.02
30-Day Visible Supply ($ Million)	$3,452	– $2,517	– $254
Stocks:			
Dow-Jones Averages:			
Industrials	2,570.17	+ 45.53	+800.48
Transportation	1,033.19	+ 19.36	+248.94
Utilities	195.95	+ 1.78	– 5.80
65 Stocks	935.95	+ 15.45	+234.89
N.Y.S.E. Composite Index	179.14	+ 2.78	+ 45.20
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,646	+ 11,618	+47,978

*34% Taxable equivalent 12.58%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/25/87	Week Ago
Overnight	7.00%	6.75%
1 month	7.50	7.44
3 month	7.56	7.50
6 month	8.00	7.94
1 year	8.56	8.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/25/87)	Currency Per U.S. $	Week Ago
Canada	1.3138	1.3140
France	6.0780	6.0190
Germany	1.8233	1.8058
Italy	1316.00	1304.00
Japan	143.96	142.60
Mexico	1568.00	1551.00
Switzerland	1.5129	1.4960
U.K.*	1.6355	1.6572

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/25/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	+0.8%	–3.0%

period was a hefty 12.6 percent. For 1987 as a whole, appliance shipments are expected to increase less than one percent after jumping about eight percent in 1986. Worse still, 1988 could see the first annual drop in shipments since 1982.

In the furniture and home furnishings industry, the situation is similar. During the first half of 1987, most furniture makers enjoyed high volume gains as a result of pent-up demand from last year's strong housing resale and new construction markets. But now, the uptick in interest rates, renewed fears of inflation and high levels of consumer debt, together with the housing malaise, have caused a slowdown at the retail level which could in turn lead to a reduction in orders and production.

Personal consumption expenditures for furniture and home furnishings rose only 2.9 percent over the past 12 months—the smallest year-over-year increase since September 1982. According to *Furniture Today*, a trade publication, sales of furniture and home furnishings should increase about 3.2 percent, after adjusting for inflation, in 1987. And in 1988 only about one percent real growth is expected. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/23/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	233.420	+14.771	+34.709
Loans to Depository Inst.	.976	− .050	− .118
Float	.842	+ .052	+ .250
Total Reserve Bank Credit	251.932	+15.454	+34.832
Treasury Deposits with Federal Reserve Banks	21.647	+17.440	+14.022
Currency in Circulation	217.459	− 1.283	+16.742
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	181.872	− 2.551	+20.292
	9/23/87		
Member Bank Reserves:			
Total Reserves Held	57.536	− .114	+ 5.990
Excess (Deficiency)	.565	− .629	− .141
Net Free Reserves	.095	− .625	− .199

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (9/14/87)	750.3	− 0.2‡	+ 8.4‡
M2 (August '87)	2,862.2	+ 3.1	+ 5.3
M3 (August '87)	3,605.7	+ 5.1	+ 6.1
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/25/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.50%	6.87%	7.23%
* Federal Agencies	7.30	7.48	7.60
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.95	8.18	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.55	7.94	8.45

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.15%	Oct.	7.35%
15- 29 days	7.28	Nov.	7.37
30- 59 days	7.30	Dec.	7.45
60- 89 days	7.38	Jan.	7.55
90-179 days	7.43	Feb.	7.58
180-239 days	7.50	Mar.	7.58
240-270 days	7.50		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	7.38%	Effective Rate	7.30%
90-120 days	7.45		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,445r	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,795r	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.5r	4.4	0.6
Change in Consumer Prices*	Aug '87n	6.0% (1)	2.4% (1)	2.4%
Change in Producer Prices*	Aug '87	0.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '87	113,081	112,727	110,067
Unemployment as % of Civilian Labor Force†	Aug '87	6.0%	6.0%	6.8%
Personal Income*	Aug '87n	$ 3,750	$ 3,732r	$ 3,553
Leading Indicators Composite Index (1967=100)†	Jul '87	191.8	190.8	179.9
Industrial Production Index (1977=100) †	Aug '87n	130.7	130.3r	125.1
Net Change in Consumer Installment Credit †	Jul '87	$ 3.46	$ 4.55	$ 6.28
U.S. Merchandise Trade Balance	Jul '87	−$ 16.47	−$ 15.71	−$ 16.05
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Aug '87n	1,582	1,606r	1,800
New Construction Expenditures*	Jul '87	$ 391.8	$ 392.4	$ 391.0
Total Business Inventories †	Jul '87n	$ 676.2	$ 674.8r	$ 656.4r
Total Business Sales †	Jul '87n	$ 451.6	$ 451.7r	$ 421.2r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

(1) Indicates new series.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 21

Friday, October 9, 1987

Analysis of Business Trends Plus Selected Financial Indicators

New Developments Down on the Farm

Good news has not been abundant for American farmers during much of this decade, but after years of great financial hardships and many personal tragedies, a sense of optimism is slowly spreading throughout rural America. Declining costs of operations, record government support programs, reduced debt, stable or rising farmland prices, and enhanced exports have eased the financial stress and brightened profit potential for the farm sector.

One of the major factors in the brighter outlook for American agriculture is the decline in farmers' costs of operations. Farmers' cash expenses dropped from the record $116 billion in 1984 to $100 billion in 1986 and are expected to fall an additional $3 billion to $5 billion this year–the first time since the early 1930s that farmers' cash expenses have declined for three consecutive years. The drop in farmers' operating costs comes from three major sources: Lower prices for such manufactured inputs as fertilizers, pesticides and fuels, lower interest costs because of the earlier declines in interest rates and declining farm debt, and finally, a reduction in planted acreage due to wide participation by farmers in government land-idling programs. Lower farm expenses also seem to reflect better managerial decisions–hard-pressed farmers were thriftier in their use of manufactured inputs and hired labor.

In addition to lower costs of production, government programs are playing an increasingly important role in improving the financial position of the farm sector. Farm income is being boosted by various farm subsidy payments which are expected to skyrocket to $16 billion in 1987 from less than $8 billion in 1985. These subsidies will add up to 10 percent to farmers' cash incomes compared with about five percent in 1985.

However, receipts from marketing of farm products are expected to register their second consecutive annual decline this year, totaling somewhere between $136 billion and $138 billion, down from $140 billion in 1986. Most of the decline will come from lower crop receipts–a victim of the bumper harvests of the past few years that produced an oversupply and lowered prices of many farm commodities. Although revenues from livestock–another major farm output–are expected to increase, this gain will not offset the decline in crop receipts.

Record Net Farm Incomes

Nonetheless, the combination of sharply lower expenses and increased government payments will offset lower farm product receipts. The net result: Farmers' net cash incomes–cash generated by the farm business that can be used to service debt, expand the business or pay household expenses–are expected to reach a new record. This year's total should be somewhere between $54 billion and $58 billion, up from the $52 billion posted last year.

The increase in farm cash incomes has had a direct impact on farmers' ability to service debt. After reaching a peak of $204 billion in 1982, total farm debt declined to $176 billion in 1986 and is expected to be reduced by a further $20 billion this year. Part of that reduction is due to write-offs of bad loans carried on the books of commercial banks and the Farm Credit System. Still, record net cash incomes are helping farmers to pay off some of their outstanding debt.

Increased Agricultural Exports

This year is also shaping up better than expected to U.S. agricultural exports. Government export subsidies and a lower dollar have made U.S. farm products more competitive in world markets and, thus, have spurred demand for American agricultural goods. For the first time in three years, farm exports are expected to increase, year over year. The Agriculture Department estimates that the value of U.S. farm exports totaled $28 billion in the fiscal year ended September 30, 1987, up almost 6½ percent from their recent low of $26.3 billion in the previous fiscal year.

These improved prospects for the agricultural sector are stimulating a renewed interest in

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farmland, arresting the long slide in real estate values in the Farm Belt. The value of farmland, which accounts for the bulk of farm assets, and which is the principal basis for farm credit, had been shrinking over the past 15 years. However, recent surveys in many parts of the nation's Farm Belt indicate that land values have stabilized or are slowly moving upward, although prices still vary widely depending on the region and type of land.

Improved income, lower debt and stabilizing asset values have reduced the amount of farm assets at risk. In fact, according to the Department of Agriculture, nearly two out of every five farmers were debt-free at the beginning of 1987 and another 40 percent had debt-to-asset ratios of less than .40 (farms with debt-to-asset ratios of less than .40 and with positive net cash incomes are considered financially stable). However, the remaining 21 percent of all farms were still highly leveraged at the start of 1987.

No Boost For Farm Equipment

But the brighter financial picture for the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/23/87)	164,543	+ 1,195	+ 8,247
New York City (9/30/87)	36,891	+ 190	+ 3,331
Commercial Paper (9/30/87)	360,198	– 450	+ 33,186

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/23/87)	272,021	+ 1,011	+12,930
New York City (9/30/87)	59,721	+ 1,015	+ 1,500

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/23/87)	801,839	+ 475	+52,203
New York City (9/30/87)	180,223	+ 874	+15,635

Financial Markets

	Friday 10/9/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.96%	+ .12	+ 1.78
180-Day Bills†	7.68	+ .49	+ 2.38
Longest Bills†	8.21	+ .34	+ 2.67
Recent Issues:			
$8^{1}/_{2}$s 9/30/89	8.94	+ .37	
$9^{1}/_{8}$s 9/30/91 (When Issued)	9.48	NA	
$8^{5}/_{8}$s 8/15/97	9.95	+ .38	
$8^{7}/_{8}$s 8/15/17	9.96	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (10/8/87)	8.66%	+ .13	+ 1.60
Blue List Total ($ Million)	$1,420	– $ 32	– $ 98
30-Day Visible Supply ($ Million)	$2,207	– $120	+ $270
Total	$3,627	– $152	+ $172
Corporates:			
Moody's Aa Composite (10/8/87)	10.73%	+ .24	+ 1.42
30-Day Visible Supply ($ Million)	$2,910	+ $1,705	–$2,885
Stocks:			
Dow-Jones Averages:			
Industrials	2,482.21	– 158.78	+689.04
Transportation	1,036.88	– 27.53	+212.75
Utilities	196.06	– 4.69	– 2.13
65 Stocks	918.65	– 43.90	+204.38
N.Y.S.E. Composite Index	174.64	– 8.79	+ 38.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,045	– 9,343	+53,347

*34% Taxable equivalent 13.12%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/9/87	Week Ago
Overnight	7.44%	7.25%
1 month	7.94	7.56
3 month	8.81	8.25
6 month	9.00	8.44
1 year	9.44	8.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/9/87)	Currency Per U.S. $	Week Ago
Canada	1.3063	1.3058
France	6.0430	6.1325
Germany	1.8145	1.8408
Italy	1309.25	1328.50
Japan	143.95	146.40
Mexico	1611.00	1589.00
Switzerland	1.5078	1.5338
U.K.*	1.6510	1.6229

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/9/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.1%	–4.0%

agricultural sector has not translated into a sustained improvement in demand for farm equipment. Although farmers have more cash in their pockets, they have not yet returned to farm machinery lots looking for new equipment. In the January-July period of 1987, unit retail sales of farm equipment continued to slide, with almost all major categories showing declines from last year's already low levels. For example, for the first seven months of 1987, sales of tractors with over 100 horsepower plunged more than 40 percent from last year's levels, while sales of combines dropped more than 30 percent.

Ironically, government farm programs which provide subsidies to farmers who reduce acreage devoted to major crops are clouding the outlook for the farm equipment industry. While these government payments are boosting farmers' incomes, the massive idling of farmland—equivalent to the area of Iowa and Illinois combined—reduces the need for new equipment. As a result, the shrinking sales of the first seven months of 1987 may foreshadow the eighth year of declining sales for the farm equipment industry even as the agricultural sector begins a slow upward return toward prosperity. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	10/7/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	219.532	− 3.887	+24.489
Loans to Depository Inst.	1.193	− .004	+ .330
Float	.861	+ .373	+ .394
Total Reserve Bank Credit	237.896	− 3.936	+24.994
Treasury Deposits with Federal Reserve Banks	5.341	− 9.014	+ 1.917
Currency in Circulation	217.429	+ .880	+15.833
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	187.437	+ 5.359	+24.483
	10/7/87		
Member Bank Reserves:			
Total Reserves Held	57.262	− .263	+ 5.553
Excess (Deficiency)	.937	+ .419	+ .277
Net Free Reserves	.211	+ .163	− .085
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (9/28/87)	751.5	+ 2.8‡	+ 8.3‡
M2 (August '87)	2,862.7	+ 3.1	+ 5.3
M3 (August '87)	3,606.8	+ 5.2	+ 6.2
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/9/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.70%	7.31%	7.66%
* Federal Agencies	7.57	7.78	8.20
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.58	8.33	8.94
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.50	8.75	9.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.45%	Nov.	7.50%
15- 29 days	7.55	Dec.	7.70
30- 59 days	7.65	Jan.	8.30
60- 89 days	7.77	Feb.	8.30
90-179 days	7.80	Mar.	8.30
180-239 days	7.75	Apr.	8.30
240-270 days	7.75		

‡Industrial Paper—Prime			
30- 89 days	7.89%	†Federal Funds	
90-120 days	8.30	Effective Rate	7.60%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,445	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,795	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.5	4.4	0.6
Change in Consumer Prices*	Aug '87	6.0% (1)	2.4% (1)	2.4%
Change in Producer Prices*	Aug '87	0.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Sep '87n	112,772	113,081	109,987
Unemployment as % of Civilian Labor Force †	Sep '87n	5.9%	6.0%	7.0%
Personal Income*	Aug '87	$ 3,750	$ 3,732	$ 3,553
Leading Indicators Composite Index (1967=100) †	Aug '87n	192.6	191.4r	180.3
Industrial Production Index (1977=100) †	Aug '87	130.7	130.3	125.1
Net Change in Consumer Installment Credit †	Aug '87n	$ 4.66	$ 3.35	$ 5.61
U.S. Merchandise Trade Balance	Jul '87	−$ 16.47	−$ 15.71	−$ 16.05
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Aug '87	1,582	1,606	1,800
New Construction Expenditures*	Aug '87n	$ 399.6	$ 393.4r	$ 395.3
Total Business Inventories †	Jul '87	$ 676.2	$ 674.8	$ 656.4
Total Business Sales †	Jul '87	$ 451.6	$ 451.7	$ 421.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 22

Monday, October 26, 1987

Analysis of Business Trends Plus Selected Financial Indicators

The Stock Market Takes a Tumble

With the Dow Jones Industrial Average posting its steepest one-day plunge ever last Monday, virtually everyone is asking why this happened and what are its implications for the future. To be sure, although the answer to the latter question is the subject of considerable speculation, the volatility that gripped the stock, bond and currency markets is a bit less difficult to explain. It is a reflection of several well-founded domestic and international concerns as well as, for the stock market at least, the growing dominance of large institutional investors employing innovative, computer-assisted trading techniques. Whether designed to enhance the profits of program traders or to afford a degree of portfolio insurance, these techniques, involving the use of stock index futures and options, are widely believed to have magnified stock price swings in both directions.

Among the more fundamental concerns have been a reawakening of inflation expectations, the recent rise in interest rates and the downside vulnerability of the dollar in the foreign exchange markets, all of which are largely the unwelcome by-products of this country's inability to deal effectively with the Federal budget and foreign trade deficits. Since it is highly unlikely that these fears will disappear anytime soon, periodic bouts of financial turmoil may well become a permanent feature of the economic landscape.

Perhaps the biggest problem unsettling the financial markets is the decided rebound in inflation expectations, and the shift in long-term interest rates which has accompanied this change in investor psychology. Although it may seem that analysts are endlessly debating to what extent inflation is, or is not, back, such developments as rising industrial commodity prices, increasing capacity utilization rates and a pickup in wage rates all point to a fundamental deterioration in the inflation rate outlook. Paced by rising steel and copper prices, industrial commodity prices continue to rise at double-digit annual rates; what is more, producer price inflation, excluding the volatile food and energy components, has been accelerating for over a year.

Manufacturers Hanover Economics Department 17/270

Higher Inflation Expectations

The harbingers of higher rates of inflation are not confined to industrial commodity prices. They also include rising capacity utilization rates in several basic industries and a tightening of labor market conditions, which is now putting upward pressures on wages. Take, for example, operating rates. Although the nationwide rate of capacity utilization remains at a relatively modest 81 percent, such industries as paper and textiles are operating at, or close to, full capacity, while such others as the rubber and plastics industries are generally approaching the 90-percent neighborhood.

So, too, as the labor market moves toward full employment, wages which account for some two-thirds of all manufacturing costs are on the rebound. Average hourly earnings, whose growth was virtually flat earlier this year, have been advancing at a better than four percent annual rate over the past three months throughout the private sector and, in the manufacturing sector in particular, at a better than five percent annual clip. While these numbers may seem modest, they mark a decided shift in the pace of wage increases and are widely viewed as a forerunner of even more rapid rises in labor costs next year.

Dollar Concerns Mount

While deteriorating inflation psychology is one major factor behind the current turmoil, another big negative is the persistence of a huge merchandise trade deficit and all of its unwanted by-products. The most prominent of these are a weak dollar in the foreign exchange markets, rising protectionist sentiment within Congress and, from time to time, public policy disagreements with some of our largest trading partners. Indeed, some analysts attribute last Monday's stock price debacle in part to trans-Atlantic feuding over the appropriate stance of German monetary policy, which was being tightened, and the resulting fear among many financial market participants that a breakdown in international cooperation could quickly spell a

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weaker dollar and higher domestic interest rates.

This is because the United States has evolved into a net debtor country in recent years, dependent upon foreign capital inflows to help balance our books and keep the lid on upward interest rate pressures. In this environment, any factor which diminishes the relative attractiveness of U.S. dollar-denominated assets, whether a rise in interest rates overseas or a dip in returns available here, could quickly have negative repercussions, weakening the dollar and heightening inflation rate expectations.

Rising inflation expectations and the persistence of a huge trade imbalance seem to have provided the one-two punch necessary to flatten the financial markets. Which brings us to the second question: Namely, what does all this mean for the future? Ironically, if the past is any guide and the plunge in share prices does hasten the onset of another recession some six to 12 months from now—by eroding business and investor confidence, not to mention curbing the spending enthusiasm of the general public—it could provide something of a remedy to the ills which caused the collapse in share prices in the first place.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/7/87)	169,068	+ 4,063	+ 13,830
New York City (10/14/87)	38,628	− 324	+ 5,021
Commercial Paper (10/14/87)	361,745	+ 1,472	+ 31,065

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/7/87)	274,554	− 611	+13,314
New York City (10/14/87)	59,446	+ 469	+ 645

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/7/87)	801,948	− 5,367	+50,684
New York City (10/14/87)	178,445	+ 2,488	+16,067

Financial Markets

	Friday 10/23/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.34%	− 1.80	− .04
180-Day Bills†	6.16	− 1.81	+ .63
Longest Bills†	6.91	− 1.41	+ 1.16
Recent Issues:			
7$^{7}/_{8}$s 10/31/87 (When Issued)	7.74	NA	
9$^{1}/_{8}$s 9/30/91	8.45	− 1.25	
8$^{5}/_{8}$s 8/15/97	8.98	− 1.24	
8$^{7}/_{8}$s 8/15/17	9.10	− 1.13	
Municipals:			
Bond Buyer—20 Bond Index* (10/22/87)	8.72%	− .45	+ 1.61
Blue List Total ($ Million)	$1,057	− $380	− $511
30-Day Visible Supply ($ Million)	$1,810	+ $ 87	− $284
Total	$2,867	− $293	− $795
Corporates:			
Moody's Aa Composite (10/22/87)	10.88%	− .14	+ 1.55
30-Day Visible Supply ($ Million)	$3,580	+ $935	−$1,662
Stocks:			
Dow-Jones Averages:			
Industrials	1,950.76	− 295.98	+ 118.50
Transportation	748.95	− 192.70	− 76.05
Utilities	183.82	− 6.32	− 18.45
65 Stocks	722.47	− 117.30	− 2.96
N.Y.S.E. Composite Index	139.18	− 19.95	+ 1.91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	460,012	+ 235,262	+ 332,980

*34% Taxable equivalent 13.21%.

† Bond equivalent

International Rates

	Friday 10/23/87	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	6.63%	7.50%
1 month	6.94	8.00
3 month	7.50	9.06
6 month	7.50	9.25
1 year	7.88	9.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/23/87)	Currency Per U.S. $	Week Ago
Canada	1.3162	1.2995
France	6.0350	6.0125
Germany	1.8110	1.8000
Italy	1303.50	1300.00
Japan	144.25	142.45
Mexico	1638.00	1621.00
Switzerland	1.5050	1.4918
U.K.*	1.6540	1.6657

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/23/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	+1.0%	−3.1

A decided slowing of business activity would dampen inflation expectations, reverse the upward trend in interest rates and diminish the demand for foreign imports, narrowing the trade deficit and bolstering the dollar in the foreign exchange markets. In fact, some of the price rebound in the long-term bond market, as well as the recent uptick in the dollar, may be the result of the growing popularity of just such thinking.

No Replay of 1929

But before we get to that point, it should be kept in mind that not all of the recent news is negative, nor is this a replay of the 1929 experience. With funds flowing out of stocks and into the debt markets, bond prices have already rebounded considerably and interest yields have moved sharply lower, the dollar has moved higher in the face of a renewed commitment by the major industrial countries to exchange rate stability, and "bottom fishing" is providing at least a temporary floor to share prices. This news, together with the safeguards put in place subsequent to the events of 1929, will limit the damage done by the recent financial market turmoil. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	10/21/87	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	223.919	+ 5.416	+25.985
Loans to Depository Inst.	1.111	+ .209	+ .223
Float	.906	+ .172	+ .278
Total Reserve Bank Credit	242.464	+ 5.897	+26.372
Treasury Deposits with Federal Reserve Banks	12.191	+ 8.910	+ 8.639
Currency in Circulation	219.090	+ .128	+16.345
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	188.315	– 1.061	+24.305
Member Bank Reserves:	10/21/87		
Total Reserves Held	58.072	+ .827	+ 5.464
Excess (Deficiency)	1.134	+ .286	+ .383
Net Free Reserves	.609	+ .487	+ .141
		% Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (10/12/87)	753.7	+ 4.2‡	+ 8.3‡
M2 (September '87)	2,874.7	+ 4.7	+ 5.0
M3 (September '87)	3,622.6	+ 5.2	+ 5.8
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/23/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.39%	5.92%	6.52%
* Federal Agencies	6.80	7.00	7.50
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.73	7.95	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.55	7.65	8.00

‡Finance Company Paper—Prime	
5- 14 days	6.55%
15- 29 days	6.70
30- 59 days	6.80
60- 89 days	6.95
90-179 days	7.13
180-239 days	7.13
240-270 days	7.13

‡* Bankers' Acceptances	
Nov.	7.05%
Dec.	7.10
Jan.	7.28
Feb.	7.30
Mar.	7.30
Apr.	7.30

‡Industrial Paper—Prime	
30- 89 days	6.88%
90-120 days	7.40

†Federal Funds Effective Rate	7.10%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87n	$ 4,512	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87n	$ 3,831	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87n	3.8	2.5	1.4
Change in Consumer Prices*	Sep '87n	2.4% (1)	6.0% (1)	3.6%
Change in Producer Prices*	Sep '87n	3.6%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Sep '87	112,772	113,081	109,987
Unemployment as % of Civilian Labor Force†	Sep '87	5.9%	6.0%	7.0%
Personal Income*	Aug '87	$ 3,750	$ 3,732	$ 3,553
Leading Indicators Composite Index (1967=100)†	Aug '87	192.6	191.4	180.3
Industrial Production Index (1977=100) †	Sep '87n	131.2	131.0r	124.5r
Net Change in Consumer Installment Credit †	Aug '87	$ 4.66	$ 3.35	$ 5.61
U.S. Merchandise Trade Balance	Aug '87n	–$ 15.68	–$ 16.47	–$ 14.03
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Sep '87n	1,669	1,598r	1,689
New Construction Expenditures*	Aug '87	$ 399.6	$ 393.4	$ 395.3
Total Business Inventories †	Aug '87n	$ 678.8	$ 677.7r	$ 655.6r
Total Business Sales †	Aug '87n	$ 458.7	$ 452.7r	$ 423.0r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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